

POSTMEDIA NETWORK CANADA CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEARS ENDED AUGUST 31, 2018 AND 2017

Approved for issuance: October 25, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis of financial condition and results of operations of Postmedia Network Canada Corp. as well as its subsidiaries, which includes Postmedia Network Inc. (collectively, "we", "our", "us", or "Postmedia") should be read in conjunction with the audited consolidated financial statements and related notes of Postmedia for the years ended August 31, 2018 and 2017. The audited consolidated financial statements of Postmedia for the years ended August 31, 2018 and 2017 are available on SEDAR at www.sedar.com.

This discussion contains statements that are not historical facts and are forward-looking statements. These statements are subject to a number of risks described in the section entitled "Risk Factors". Risks and uncertainties may cause actual results to differ materially from those contained in such forward-looking statements. Such statements reflect management's current views and are based on certain assumptions. They are only estimates of future developments, and actual developments may differ materially from these statements due to a number of factors. Investors are cautioned not to place undue reliance on such forward-looking statements. No forward-looking statement is a guarantee of future results. We have tried, where possible, to identify such statements by using words such as "believe", "expect", "estimate", "anticipate", "will", "could" and similar expressions in connection with any discussion of future operating or financial performance. Except as required by law, we undertake no obligation to publicly update or revise any forward-looking statements or information, whether written or oral, that may be as a result of new information, future events or otherwise.

All amounts are expressed in Canadian dollars unless otherwise noted. The audited consolidated financial statements of Postmedia for the years ended August 31, 2018 and 2017 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

This management's discussion and analysis is dated October 25, 2018 and does not reflect changes or information subsequent to this date. Additional information in respect of Postmedia is available on SEDAR at www.sedar.com.

Additional IFRS Measure

We use operating income before depreciation, amortization, impairment and restructuring, as presented in the audited consolidated financial statements for the years ended August 31, 2018 and 2017 and described in note 3 thereto, to assist in assessing our financial performance. Management and the Board of Directors of Postmedia use this measure to evaluate consolidated operating results and to assess Postmedia's ability to incur and service debt. In addition, this measure is used to make operating decisions as it is an indicator of performance including of how much cash is being generated by Postmedia and assists in determining the need for additional cost reductions as well as the evaluation of personnel and resource allocation decisions. Operating income before depreciation, amortization, impairment and restructuring is referred to as an additional IFRS measure and may not be comparable to similarly titled measures presented by other companies.

Overview and Background

Our business consists of news and information gathering and dissemination operations, with products offered in local, regional and major metropolitan markets in Canada through a variety of print, web, tablet and smartphone platforms. The combination of these distribution platforms provides audiences with a variety of media through which to access and interact with our content. The breadth of our reach and the diversity of our content enable advertisers to reach their target audiences on a local, regional or national scale through the convenience of a single provider. We have the highest weekly print readership of newspapers in Canada, based on Vividata Fall 2018 survey data and represent more than 140 brands across multiple print, online, and mobile platforms.

For financial reporting purposes we have one operating segment, the Newsmedia segment, which publishes daily and non-daily newspapers and operates digital media and online assets including the *canada.com* and *canoe.com* websites and each newspaper's online website. The Newsmedia segment's revenue is primarily from print and digital advertising and circulation/subscription revenue.

Recent Developments

We continue to identify and undertake cost reduction initiatives in an effort to address revenue decline in the legacy print business. During the year ended August 31, 2017, we completed cost reduction initiatives originally announced in October 2016, which included a company-wide voluntary buyout program. During the year ended August 31, 2018, we began new cost reduction initiatives, including the closure of 9 community newspapers, with the objective of reducing compensation expense by approximately 10% by the end of fiscal 2018 through a combination of voluntary buyouts and involuntary terminations. Cost savings from this program have been identified and substantially completed as at August 31, 2018 with the balance to be completed by the end of the first quarter of fiscal 2019. During the three months ended August 31, 2018 we implemented cost reduction initiatives which are expected to result in approximately \$21 million of net annualized cost savings. In total, we implemented net annualized cost savings of approximately \$47 million since these cost reduction initiatives commenced.

In February 2018, we received certification from the Ontario Digital Media Corporation that digital media tax credits totaling a net cash claim of \$19.9 million for the period of September 1, 2012 to April 23, 2015 were eligible to be claimed. We refiled the applicable tax returns to reflect such claim and during the year ended August 31, 2018 received \$20.4 million including accrued interest of \$0.5 million, related to this claim. During the year ended August 31, 2018, we recorded the tax credit as a recovery of compensation expense of \$19.9 million, as the claim primarily related to previously recognized compensation expenses.

As at May 31, 2018, we determined that certain properties' carrying amounts will be recovered principally through a sales transaction, including a production facility that is no longer required as a result of outsourcing, and as a result during the year ended August 31, 2018, we recorded an impairment charge of \$9.4 million to reduce the carrying amount of these properties to fair value less costs of disposal based on the expected net proceeds. In July 2018, we agreed to sell the Regina production facility classified as held-for-sale for gross proceeds of \$7.2 million of which the net proceeds of \$7.0 million were used to redeem \$6.8 million aggregate principal amount of 8.25% Senior Secured Notes due 2021 ("First-Lien Notes") including accrued interest of \$0.2 million.

On November 27, 2017, we entered into an asset purchase agreement with Metroland Media Group and Free Daily News Group Inc., both subsidiaries of Torstar Corporation, (collectively, "Torstar") to acquire 22 of Torstar's community newspapers and two free daily commuter newspapers. In consideration, we sold 15 of our community newspapers and two free daily commuter newspapers to Torstar (the "Torstar Transaction"). We are continuing to operate one of the community newspapers acquired and closed the remaining properties between November 2017 and January 2018 as they are located in areas serviced by multiple publications. The Torstar Transaction is a non-monetary transaction as there was no cash exchanged. We accounted for the non-monetary transaction as a business combination with the fair value of the properties transferred representing the acquisition consideration. The estimated fair value of both our properties and Torstar's properties is \$3.5 million. During the year ended August 31, 2018, we recognized a gain of \$4.7 million on disposal of operations which represents the difference between the acquisition consideration, or the fair value of the properties transferred, and the carrying value of the net liabilities transferred. During the year ended August 31, 2018, we incurred severance costs of \$3.7 million, provisions for onerous leases and contracts of \$0.8 million and \$0.9 million, respectively, and acquisition costs of \$0.5 million related to the Torstar Transaction all of which are included in restructuring and other items in the consolidated statement of operations. The Competition Bureau is reviewing the Torstar Transaction under the conspiracy provisions and merger provisions of the *Competition Act* (Canada) and we are cooperating with the Competition Bureau in connection with its investigations.

On June 22, 2017, we entered into an asset purchase agreement with Meltwater News Canada Inc. to sell Infomart, our media monitoring division, for gross proceeds of approximately \$38.3 million subject to closing adjustments, including adjustments relating to certain consents (the "Infomart Transaction"). The Infomart Transaction closed on August 15, 2017 and included Infomart's media monitoring business, direct feed business and professional services operations, including clients of such services. During the year ended August 31, 2018, we used \$30.6 million of the net proceeds from the Infomart Transaction to redeem \$29.6 million aggregate principal amount of First-Lien Notes and pay accrued interest of \$1.0 million. The remaining net proceeds of \$5.7 million, equal to 15% of the purchase price, is being held in escrow for 18 months to satisfy claims arising under the purchase agreement. The Infomart Transaction includes the entering into of a transition services agreement for a period of up to 18 months.

As per the terms of the amended and restated First-Lien Notes indenture, the excess cash flow for the six months ended February 28, 2018 resulted in an excess cash flow offer of \$0.9 million which was used to redeem \$0.9 million of the First-Lien Notes at par during the year ended August 31, 2018. During the year ended August 31, 2018, we sold property and equipment classified as held-for-sale related to the London production facility for gross proceeds of \$10.5 million and the net proceeds of \$9.9 million were used to redeem \$9.5 million aggregate principal amount of First-Lien Notes and pay accrued interest of \$0.4 million. During the year ended August 31, 2017, we sold property and equipment for net proceeds of \$35.0 million, which included net proceeds of \$30.3 million from the sale of the Islington production facility. During the year ended August 31, 2018, a portion of the net proceeds related to these asset sales of \$31.5 million were used to redeem \$30.4 million aggregate principal amount of First-Lien Notes and pay accrued interest of \$1.1 million.

On March 9, 2017, we announced a number of changes to our employee benefit plans which include ceasing pension accruals for non-union employees under all defined benefit pension plans and the discontinuation of retiree benefits for non-union active employees under all post-retirement benefit plans effective September 1, 2017. In addition, on April 19, 2017, we reached an agreement with certain union employees to discontinue retiree benefits for active employees effective December 31, 2017 and ceased compensation increases for employees on our self-insured long-term disability plan. As a result of these plan amendments, during the three months and year ended August 31, 2017, we recorded a curtailment gain of \$2.0 million and \$24.8 million, respectively, in restructuring and other items in the consolidated statement of operations. Employees currently enrolled in defined benefit pension plans will were eligible to enroll in defined contribution pension plans.

On January 18, 2017, we entered into a senior secured asset-based revolving credit facility (“ABL Facility”) with associated companies of Chatham, as defined below, for an aggregate amount of up to \$15.0 million, which may be increased by up to \$10.0 million at our request and the consent of the lender. On October 19, 2017, the ABL Facility was increased to an aggregate amount of up to \$25.0 million. The ABL Facility bears interest on amounts drawn at bankers acceptance rate plus 5.0% with a commitment fee of 0.5% on the amount of available borrowings and will mature on January 18, 2019. As at August 31, 2018, we have no amounts outstanding on the ABL Facility.

On October 5, 2016, we completed a recapitalization transaction (the “Recapitalization Transaction”) by way of a corporate plan of arrangement (a “Plan of Arrangement”) under the Canada Business Corporations Act. As part of the Plan of Arrangement we redeemed \$77.8 million aggregate principal amount of First-Lien Notes at par, plus accrued interest of \$10.8 million, from proceeds of the Recapitalization Transaction resulting in a total of \$225.0 million First-Lien Notes outstanding. In addition, the First-Lien Notes were amended and restated such that the maturity date was extended to July 15, 2021. The 12.5% Senior Secured Notes due 2018 (“Second-Lien Notes”) were exchanged for Class NC variable voting shares that represented approximately 98% of the outstanding shares. Accrued interest of \$21.9 million (US\$16.8 million) originally due on July 15, 2016 was paid in cash upon completion of the Recapitalization Transaction. In addition, we issued US\$88.6 million (\$115.5 million) of 10.25% Second-Lien Secured Notes due 2023 (“New Second-Lien Notes”) for net proceeds of US\$84.4 million (\$110.0 million). The Plan of Arrangement also included the offering of the New Second-Lien Notes to holders of existing Second-Lien Notes, on a pro-rata basis determined based on their holdings of Second-Lien Notes as at August 5, 2016. The New Second-Lien Notes offering was backstopped by certain individual funds for which Chatham Asset Management LLC acts as investment advisor (“Chatham”) pursuant to a backstop commitment letter (the “Backstop Commitment Letter”). In consideration for entering into the Backstop Commitment Letter, Chatham received a fee of US\$4.2 million (\$5.5 million), which was used to acquire additional New Second-Lien Notes included in the US\$88.6 million (\$115.5 million) New Second-Lien Notes described above. The New Second-Lien Notes bear interest at 10.25% cash interest or 11.25% paid-in-kind interest, at our option subject to the conditions of no option to pay cash interest for the first three years unless the aggregate amount of First-Lien Notes, together with any other first-lien debt, is \$112.5 million or less.

Selected Annual Information

	For the years ended August 31,	
	2018	2017
Revenues.....	676,293	754,264
Net earnings (loss) from continuing operations.....	(33,870)	844
Net earnings (loss) per share from continuing operations		
Basic.....	\$ (0.36)	\$ 0.01
Diluted.....	\$ (0.36)	\$ 0.01
Net earnings (loss) attributable to equity holders of the Company.....	(33,870)	44,755
Net earnings (loss) per share attributable to equity holders of the Company		
Basic.....	\$ (0.36)	\$ 0.40
Diluted.....	\$ (0.36)	\$ 0.40
Total assets.....	353,263	461,718
Total long-term financial liabilities.....	265,886	261,761

Key Factors Affecting Operating Results

Revenue is earned primarily from advertising, circulation and digital sources. Print advertising revenue is a function of the volume, or linage, of advertising sold and rates charged. Print circulation revenue is derived from home-delivery subscriptions for newspapers, including All Access Subscriptions (across the four platforms of print, web, tablet and smartphone), single copy sales at retail outlets and vending machines and is a function of the number of newspapers sold and the price per copy. Digital revenue consists of revenue from national and local display advertising, programmatic and digital media services as well as digital classified advertising on our newspaper and other websites, including *canada.com*, *canoe.com* and revenue from ePaper and Digital Access subscriptions.

Print advertising revenue was \$68.8 million and \$308.6 million for the three months and year ended August 31, 2018, representing 43.3% and 45.6% of total revenue for such periods, respectively. Our major print advertising categories consist of local, national, and inserts. These categories composed 49.8%, 18.0% and 30.6%, respectively, of total print advertising for the three months ended August 31, 2018, and 48.9%, 20.0% and 29.3%, respectively, of total print advertising for the year ended August 31, 2018.

Print advertising is influenced by both the overall strength of the economy and significant structural changes in the newspaper industry and media in general. The continuing shift in advertising dollars from print advertising to advertising in other formats, particularly online and other digital platforms including search and social media websites, combined with periods of economic uncertainty have resulted in significant declines in print advertising. We anticipate the print advertising market to remain challenging and expect current trends to continue into fiscal 2019. During the three months and year ended August 31, 2018, we experienced print advertising revenue decreases of 17.0% and 17.4%, respectively, as compared to the same periods in the prior year. These decreases in print advertising revenue for the three months and year ended August 31, 2018 relate to weakness across all our major advertising categories including local, national and insert advertising.

Print circulation revenue was \$54.0 million and \$220.4 million for the three months and year ended August 31, 2018, representing 34.0% and 32.6% of total revenue for such periods, respectively. Circulation revenues decreased \$5.7 million and \$18.6 million, respectively in the three months and year ended August 31, 2018 as compared to the same periods in the prior year. These decreases are the result of price increases being offset by declines in circulation volumes that have been experienced over the last few years and this trend continued in the three months and year ended August 31, 2018. We expect these print circulation revenue trends to continue into fiscal 2019.

Digital revenue was \$28.9 million and \$116.4 million for the three months and year ended August 31, 2018, respectively, representing 18.2% and 17.2% of total revenue for such periods, respectively. Digital revenues increased \$2.5 million and \$11.0 million in the three months and year ended August 31, 2018, respectively, as compared to the same periods in the prior year as a result of increases in programmatic and digital media services revenue, national digital advertising revenue, and other digital revenue, partially offset by decreases in local digital advertising revenue and digital classified revenue. We expect these digital revenue trends to continue into fiscal 2019 and we continue to believe digital revenue represents a future growth opportunity for Postmedia and as a result we are focused on various new products and initiatives in this area including digital marketing services and providing customized, full-service solutions to increase a business' overall revenue including website development, search engine optimization (SEO) and search engine marketing (SEM).

Our principal expenses consist of compensation, newsprint, distribution and production. These represented 40.7%, 6.1%, 20.7% and 13.8%, respectively, of total operating expenses excluding depreciation, amortization, impairment and restructuring for the three months ended August 31, 2018 and 39.6%, 6.4%, 21.6% and 13.8%, respectively, of total operating expenses excluding depreciation, amortization, impairment and restructuring for the year ended August 31, 2018. We experienced decreases in compensation, newsprint and distribution expenses of \$4.4 million, \$1.2 million and \$4.8 million, respectively, and experienced an increase in production expense of \$1.5 million in the three months ended August 31, 2018 as compared to the same period in the prior year. We experienced decreases in compensation, newsprint and distribution expenses of \$60.8 million, \$6.8 million and \$18.2 million, respectively, and experienced an increase in production expense of \$9.0 million in the year ended August 31, 2018 as compared to the same period in the prior year. The decrease in compensation expense during the year ended August 31, 2018 includes the recovery of \$19.9 million related to the tax credit described earlier in "Recent Developments". In addition, the decreases in compensation, newsprint and distribution expenses for the three months and year ended August 31, 2018 are as a result of cost reduction initiatives and decreases in newspaper circulation volumes. The increase in production expenses includes increases in digital advertising production costs as well as the outsourcing of the London Free Press and Calgary Sun in October 2016 and July 2018, respectively.

As a result of the continuing trends in advertising revenue, we continue to pursue additional cost reduction initiatives as described earlier in "Recent Developments". During the three months ended August 31, 2018 we implemented cost reduction initiatives which are expected to result in approximately \$21 million of net annualized cost savings. In total, we implemented net annualized cost savings of approximately \$47 million under these cost reduction initiatives.

Our operating results are affected by variations in the cost and availability of newsprint. Newsprint is the principal raw material used in the production of our newspapers and other print publications. It is a commodity that is generally subject to price volatility. We take advantage of the purchasing power that comes with the large volume of newsprint we purchase, as well as our proximity to paper mills across Canada, to minimize our total newsprint expense. Changes in newsprint prices can significantly affect our operating results. A \$50 per tonne increase or decrease in the price of newsprint would be expected to affect our newsprint expense by approximately \$3.0 million on an annualized basis. We experienced an increase in newsprint prices in fiscal 2018, and we expect a further increase in fiscal 2019.

Our distribution is primarily outsourced to third party suppliers. The key drivers of our distribution expenses are fuel costs and circulation and insert volumes. Our distribution expenses have decreased during the three months and year ended August 31, 2018 as compared to the same periods in the prior year primarily related to cost savings as result of a reduction in newspaper circulation volumes and cost reduction initiatives. We expect newspaper circulation volume trends to continue into fiscal 2019.

Our production expenses include the costs related to outsourced production of our newspapers, digital advertising production costs and ink and other production supplies. Our production expenses have increased during the three months and year ended August 31, 2018 as a result of increases in digital advertising production costs and the outsourcing of the London Free Press and Calgary Sun newspaper in October 2016 and July 2018, respectively. We expect digital advertising production costs to continue to increase in fiscal 2019.

Other Factors

Seasonality

Revenue has experienced, and is expected to continue to experience, seasonality due to seasonal advertising patterns and seasonal influences on media consumption habits. Historically, our advertising revenue and accounts receivable is typically highest in the first and third fiscal quarters, while expenses are relatively constant throughout the fiscal year.

Critical accounting estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates, assumptions and judgements that affect the reported amounts of assets and liabilities, related amounts of revenues and expenses, and disclosure of contingent assets and liabilities. Although these estimates, assumptions and judgements are based upon management's knowledge of the amount, event or actions; actual results could differ from those estimates, assumptions and judgements.

We have identified the following significant areas that require management to use estimates, assumptions and judgements. These accounting estimates, assumptions and judgements are considered critical as changes in such estimates, assumptions and judgements have the potential to materially impact the audited consolidated financial statements. For a summary of our significant accounting policies please refer to note 2 of our audited consolidated financial statements for the years ended August 31, 2018 and 2017.

The following significant areas require management to use assumptions and to make estimates:

Impairment of goodwill and long lived assets

We test goodwill and indefinite life intangible assets for impairment annually, or more frequently if there are indicators that an impairment may have arisen. In testing for impairment, assets including indefinite life intangible assets and other long lived assets, are grouped into a cash generating unit ("CGU" or "CGUs") which represents the lowest level for which there are separately identifiable cash inflows. The recoverable amount of each CGU or group of CGUs is based on the higher of value in use and fair value less costs of disposal ("FVLCD") calculations. During the year ended August 31, 2018, we computed the FVLCD for each CGU applying a market multiple range of 4.0 to 4.25 times the adjusted trailing twelve month operating income before depreciation, amortization, impairment and restructuring less disposal costs. Management determined this key assumption based on an average of market multiples for comparable entities. Refer to note 8 of our audited consolidated financial statements for the years ended August 31, 2018 and 2017 for more details about the methods and assumptions used in estimating the recoverable amount. In addition, estimates were required in the determination of FVLCD for our held-for-sale-assets.

Employee future benefits

The cost of defined benefit pension benefit plans, post-retirement benefit plans and other long-term employee benefit plans and the present value of the defined benefit obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions including the discount rate and mortality rates, among others to measure the net defined benefit obligation. Due to the complexity of the actuarial valuations and the long-term nature of employee future benefits, the corresponding obligation is highly sensitive to changes in assumptions. Discount rates are reviewed at each reporting date and corresponding adjustments to the net defined benefit obligation are recognized in other comprehensive income and deficit. A change in the discount rate used in the valuation of net defined benefit obligations, affects the reported funded status of our plans as well as the net benefit cost in subsequent fiscal years. As at August 31, 2018 a 50 basis-point decrease in the discount rate would increase our defined benefit obligations by \$40.0 million and a 50 basis-point increase in the discount rate would decrease our defined benefit obligations by \$36.1 million. Refer to note 16 of our audited consolidated financial statements for the years ended August 31, 2018 and 2017 for more details about the methods and assumptions used in estimating the cost of our defined benefit pension benefit plans, post-retirement benefit plans and other long-term employee benefit plans.

Determination of the fair value of non-monetary consideration

Estimates were required in determining the fair value of the non-monetary consideration transferred in the business acquisition. Refer to note 4 of our audited consolidated financial statements for the years ended August 31, 2018 and 2017.

Determination of the fair value of shares issued

Estimates were required in determining the fair value of shares issued and used in the calculation of the gain on debt settlement and was determined by the closing price of the Variable Voting Shares. Refer to note 5 of our audited consolidated financial statements for the years ended August 31, 2018 and 2017 for more details about the methods and assumptions used in estimating the fair value of shares issued.

The following areas require management to use significant judgements apart from those involving estimates:

Determination of useful lives for the depreciation and amortization of assets with finite lives

For each class of assets with finite lives, management has to determine over which period we will consume the asset's future economic benefits. The determination of such periods and if necessary, the subsequent revision of such periods, involves judgement and has an impact on the depreciation and amortization recorded in the consolidated statements of operations. We take into account industry trends and company specific factors, including changing technologies and expectations for the in-service period of assets, when determining their respective useful lives.

Determination of the measurement of government grants and tax credits

Judgement is required in determining when government grants and tax credits are recognized. Government grants and tax credits are recognized when there is reasonable assurance that we have complied with the conditions associated with the relevant government program. The determination of reasonable assurance involves judgement due to the complexity of the programs and related claim and review processes.

Operating Results

Postmedia's operating results for the three months ended August 31, 2018 as compared to the three months ended August 31, 2017

	2018	2017
Revenues		
Print advertising.....	68,781	82,835
Print circulation.....	53,965	59,666
Digital.....	28,871	26,324
Other.....	7,060	7,988
Total revenues	158,677	176,813
Expenses		
Compensation	62,599	67,067
Newsprint.....	9,382	10,591
Distribution.....	31,763	36,598
Production.....	21,155	19,618
Other operating.....	28,873	30,581
Operating income before depreciation, amortization, impairment and restructuring	4,905	12,358
Depreciation.....	5,142	5,988
Amortization.....	5,083	3,382
Restructuring and other items.....	13,009	1,716
Operating income (loss)	(18,329)	1,272
Interest expense.....	6,831	8,809
Net financing expense relating to employee benefit plans.....	775	822
Gain on disposal of property and equipment and asset held-for-sale.....	(3,180)	(2,229)
(Gain) loss on derivative financial instruments.....	(1,010)	701
Foreign currency exchange (gains) losses.....	1,107	(9,248)
Earnings (loss) before income taxes	(22,852)	2,417
Provision for income taxes.....	-	-
Net earnings (loss) from continuing operations	(22,852)	2,417
Net earnings from discontinued operations, net of tax of nil.....	-	37,910
Net earnings (loss) attributable to equity holders of the Company	(22,852)	40,327

Revenue

Print advertising

Print advertising revenue decreased \$14.1 million, or 17.0%, to \$68.8 million for the three months ended August 31, 2018 as compared to the same period in prior year, and declines were experienced across all of our major categories including decreases from local advertising of 21.0%, national advertising of 23.7%, and insert advertising of 5.0%. The decreases were due to declines in both volume and rate with the total print advertising linage and average line rate decreasing 20.1% and 2.1%, respectively, during the three months ended August 31, 2018, as compared to the same period in the prior year.

Print circulation

Print circulation revenue decreased \$5.7 million, or 9.6%, to \$54.0 million for the three months ended August 31, 2018 as compared to the same period in the prior year as a result of decreases in circulation volume partially offset by price increases.

Digital

Digital revenue increased \$2.5 million, or 9.7%, to \$28.9 million for the three months ended August 31, 2018, as compared to the same period in the prior year as a result of increases in programmatic and digital media services revenue, national digital advertising and other digital revenue, partially offset by decreases in local digital advertising revenue and digital classified revenue.

Other

Other revenue decreased by \$0.9 million, or 11.6%, to \$7.1 million for the three months ended August 31, 2018, as compared to the same period in the prior year, primarily as a result of a decrease in commercial printing revenue and rental revenue.

Expenses

Compensation

Compensation expenses decreased \$4.5 million, or 6.7%, to \$62.6 million for the three months ended August 31, 2018, as compared to the same period in the prior year. The decrease in compensation expense is primarily as a result of declines in salary and benefits expense of \$4.8 million due to the cost reduction initiatives and a decrease in temporary labour expense of \$0.8 million, partially offset by an increase in employee benefit plan expense of \$0.7 million as a result of actuarial gains in the three months ended August 31, 2017 related to our other long-term employee benefit plans.

Newsprint

Newsprint expenses decreased \$1.2 million, or 11.4%, to \$9.4 million for the three months ended August 31, 2018, as compared to the same period in the prior year primarily as a result of consumption decreases of 21.2% due to lower newspaper circulation volumes as well as continued usage reduction efforts. Newsprint expenses include newsprint purchased for production at both our owned and outsourced production facilities.

Distribution

Distribution expenses decreased \$4.8 million, or 13.2%, to \$31.8 million for the three months ended August 31, 2018, as compared to the same period in the prior year related to cost savings as a result of the reduction in newspaper circulation volumes and cost reduction initiatives.

Production

Production expenses increased \$1.5 million, or 7.8%, to \$21.2 million for the three months ended August 31, 2018, as compared to the same period in the prior year. The increase in production expenses is related to increases in digital advertising production costs and the outsourcing of the Calgary Sun newspaper in July 2018, partially offset by the reduction in newspaper circulation volumes and ongoing cost reduction initiatives.

Other operating

Other operating expenses decreased \$1.7 million, or 5.6%, to \$28.9 million for the three months ended August 31, 2018, as compared to the same period in the prior year. This decrease in other operating expenses is primarily related to ongoing cost reduction initiatives.

Operating income before depreciation, amortization, impairment and restructuring

Operating income before depreciation, amortization, impairment and restructuring decreased \$7.5 million to \$4.9 million for the three months ended August 31, 2018, as compared to the same period in the prior year. The decrease in operating income before depreciation, amortization, impairment and restructuring was as a result of decreases in revenue and increases in production expenses, partially offset by decreases in compensation, newsprint, distribution and other operating expenses, all as discussed above.

Depreciation

Depreciation expense decreased \$0.8 million to \$5.1 million for the three months ended August 31, 2018 as compared to the same period in the prior year. The decrease relates to the disposal of properties throughout the year ended August 31, 2017 partially offset by a change in the estimate of the useful lives of the production assets of our Islington printing facility which resulted in an acceleration of depreciation expense in the three months ended August 31, 2018.

Amortization

Amortization expense increased \$1.7 million to \$5.1 million for the three months ended August 31, 2018 as compared to the same period in the prior year. The increase partially relates to the amortization expense of intangible assets acquired in the Torstar Transaction described earlier in "Recent Developments".

Restructuring and other items

Restructuring and other items expense increased \$11.3 million to \$13.0 million for the three months ended August 31, 2018 as compared to the same period in the prior year. Restructuring and other items expense for the three months ended August 31, 2018 consists of severance costs of \$13.0 million, which include both involuntary terminations and voluntary buyouts. Restructuring and other items expense for the three months ended August 31, 2017 consisted of severance costs of \$3.7 million, which included both involuntary terminations and voluntary buyouts, partially offset by a curtailment gain of \$2.0 million related to changes to our employee benefit plans, as discussed previously in "Recent Developments".

Operating income (loss)

Operating loss was \$18.3 million for the three months ended August 31, 2018, as compared to operating income of \$1.3 million for the same period in the prior year. Operating loss is the result of a decrease in operating income before depreciation, amortization, impairment and restructuring and an increase in amortization and restructuring and other items expense, partially offset by an increase in depreciation expense, all as discussed above.

Interest expense

Interest expense decreased \$2.0 million to \$6.8 million for the three months ended August 31, 2018, as compared to the same period in the prior year. Interest expense primarily relates to interest on our long-term debt that is recognized using the effective interest rate method, which amortizes the initial debt issuance costs and includes both cash and non-cash interest. The decrease in interest expense relates to decreases in cash and non-cash interest of \$1.8 million and \$0.2 million, respectively. The decrease in cash interest expense is as a result of decreases in the amount of First-Lien Notes outstanding as described earlier in "Recent Developments". The decrease in non-cash interest is primarily related to the acceleration of the amortization of debt issuance costs in the three months ended August 31, 2017 due to a revised estimate of the expected future cash flows, partially offset by an increase in the paid-in-kind interest on the New Second-Lien Notes that were issued as part of the Recapitalization Transaction described earlier in "Recent Developments".

Net financing expense relating to employee benefit plans

Net financing expense relating to employee benefit plans decreased by a nominal amount to \$0.8 million during the three months ended August 31, 2018 as compared to the same period in the prior year.

Gain on disposal of property and equipment and asset held-for-sale

During the three months ended August 31, 2018, we disposed of property and equipment and an asset held-for-sale and realized a gain of \$3.2 million, which includes a gain on sale of the Regina production facility of \$3.2 million. During the three months ended August 31, 2017, we disposed of property and equipment and realized a gain of \$2.2 million, which includes a gain on sale of the Islington production facility of \$2.0 million

(Gain) loss on derivative financial instruments

Gain on derivative financial instruments for the three months ended August 31, 2018 was \$1.0 million as compared to a loss of \$0.7 million during the same period in the prior year. The gain and loss in the three months ended August 31, 2018 and 2017 relate to the revaluation of warrants acquired in January 2016 as part of a marketing collaboration agreement with Mogo Finance Technology Inc.

Foreign currency exchange (gains) losses

Foreign currency exchange losses for the three months ended August 31, 2018 were \$1.1 million as compared to gains of \$9.2 million during the same period in the prior year. Foreign currency exchange losses in the three months ended August 31, 2018 consist primarily of unrealized losses of \$1.1 million related to changes in the carrying value of the New Second-Lien Notes. Foreign currency exchange gains in the three months ended August 31, 2017 consisted primarily of unrealized gains of \$8.8 million related to changes in the carrying value of the New Second-Lien Notes.

Earnings (loss) before income taxes

Loss before income taxes was \$22.9 million for the three months ended August 31, 2018, as compared to earnings before income taxes of \$2.4 million for the same period in the prior year. Loss before income taxes is primarily the result of an operating loss and foreign currency exchange losses and a decrease in interest expense, partially offset by a decrease in interest expense and an increase in gain on disposal of property and equipment, all as discussed above.

Provision for income taxes

We have not recorded a current or deferred tax expense or recovery for the three months ended August 31, 2018 and 2017. Current taxes payable or recoverable result in a decrease or increase, respectively, to our tax loss carryforward balances. The cumulative tax loss carryforward balances have not been recognized as a net deferred tax asset on the consolidated statement of financial position.

Net earnings (loss) from continuing operations

Net loss from continuing operations was \$22.9 million for the three months ended August 31, 2018, as compared to net earnings from continuing operations of \$2.4 million for the same period in the prior year. Net loss from continuing operations is as a result of the factors described above in earnings (loss) before income taxes and provision for income taxes.

Net earnings from discontinued operations

Net earnings from discontinued operations for the three months ended August 31, 2017 consisted of a gain on sale of Infomart, which was sold on August 15, 2017, of \$36.4 million and net earnings from discontinued operations of \$1.5 million. Refer to note 6 of our audited consolidated financial statements for the years ended August 31, 2018 and 2017 for more details on net earnings from discontinued operations.

Net earnings (loss) attributable to equity holders of the Company

Net loss was \$22.9 million for the three months ended August 31, 2018, as compared to net earnings of \$40.3 million for the same period in the prior year, as a result of the factors described above in net earnings (loss) from continuing operations and net earnings from discontinued operations.

Operating Results

Postmedia's operating results for the year ended August 31, 2018 as compared to the year ended August 31, 2017

	2018	2017
Revenues		
Print advertising.....	308,557	373,514
Print circulation.....	220,406	239,036
Digital.....	116,422	105,471
Other.....	30,908	36,243
Total revenues	676,293	754,264
Expenses		
Compensation	241,835	302,668
Newsprint.....	39,120	45,905
Distribution.....	131,688	149,930
Production.....	84,050	75,057
Other operating.....	114,219	126,106
Operating income before depreciation, amortization, impairment and restructuring	65,381	54,598
Depreciation.....	21,158	23,145
Amortization.....	17,009	14,576
Impairments.....	9,400	25,758
Restructuring and other items.....	26,464	37,814
Operating loss	(8,650)	(46,695)
Interest expense.....	27,527	32,721
Gain on disposal of operations.....	(4,676)	-
Gain on debt settlement.....	-	(78,556)
Net financing expense relating to employee benefit plans.....	2,981	5,235
Gain on disposal of property and equipment and asset held-for-sale.....	(4,676)	(2,110)
Gain on derivative financial instruments.....	(1,214)	(967)
Foreign currency exchange (gains) losses.....	5,278	(3,862)
Earnings (loss) before income taxes	(33,870)	844
Provision for income taxes.....	-	-
Net earnings (loss) from continuing operations	(33,870)	844
Net earnings from discontinued operations, net of tax of nil.....	-	43,911
Net earnings (loss) attributable to equity holders of the Company	(33,870)	44,755

Revenue

Print advertising

Print advertising revenue decreased \$65.0 million, or 17.4%, to \$308.6 million for the year ended August 31, 2018 as compared to the same period in prior year, and declines were experienced across all of our major print advertising categories including decreases from local advertising of 22.0%, national advertising of 23.3%, and insert advertising of 3.9%. The decreases were due to declines in both volume and rate with the total print advertising linage and average line rate decreasing 15.9% and 7.7%, respectively, during the year ended August 31, 2018, as compared to the same period in the prior year.

Print circulation

Print circulation revenue decreased \$18.6 million, or 7.8%, to \$220.4 million for the year ended August 31, 2018, as compared to the same period in the prior year as a result of decreases in paid circulation volume, partially offset by price increases.

Digital

Digital revenue increased \$11.0 million, or 10.4%, to \$116.4 million for the year ended August 31, 2018, as compared to the same period in the prior year as a result of increases in programmatic revenue, national digital advertising and other digital revenue, partially offset by decreases in local digital advertising revenue and digital classified revenue.

Other

Other revenue decreased by \$5.3 million, or 14.7%, to \$30.9 million for the year ended August 31, 2018, as compared to the same period in the prior year, primarily as a result of a decrease in commercial printing revenue and rental revenue.

Expenses

Compensation

Compensation expenses decreased \$60.8 million, or 20.1%, to \$241.8 million for the year ended August 31, 2018, as compared to the same period in the prior year. The decrease in compensation expenses is partially due to the recovery of \$19.9 million relating to the tax credit as described earlier in "Recent Developments". Excluding this recovery, compensation expenses decreased \$40.9 million, or 13.5%, as compared to the same period in the prior year, as a result declines in salary and benefits expense of \$34.2 million due to the cost reduction initiatives and a decrease in employee benefit plan expense of \$10.2 million as a result of changes to our employee benefit plans as described earlier in "Recent Developments" partially offset by an increase in share-based compensation expense of \$3.0 million as a result of awards granted in the year ended August 31, 2018.

Newsprint

Newsprint expenses decreased \$6.8 million, or 14.8%, to \$39.1 million for the year ended August 31, 2018 as compared to the same period in the prior year primarily as a result of consumption decreases of 18.8% due to lower newspaper circulation volumes as well as continued usage reduction efforts. Newsprint expenses include newsprint purchased for production at both our owned and outsourced production facilities.

Distribution

Distribution expenses decreased \$18.2 million, or 12.2%, to \$131.7 million for the year ended August 31, 2018, as compared to the same period in the prior year primarily related to cost savings as a result of the reduction in newspaper circulation volumes and cost reduction initiatives.

Production

Production expenses increased \$9.0 million, or 12.0%, to \$84.1 million for the year ended August 31, 2018, as compared to the same period in the prior year. The increase in production expenses is related to increases in digital advertising production costs and the outsourcing of the London Free Press and Calgary Sun newspaper in October 2016 and July 2018, respectively, partially offset by the reduction in newspaper circulation volumes and ongoing cost reduction initiatives.

Other operating

Other operating expenses decreased \$11.9 million, or 9.4%, to \$114.2 million for the year ended August 31, 2018, as compared to the same period in the prior year. The decrease in other operating expenses is primarily related to ongoing cost reduction initiatives.

Operating income before depreciation, amortization, impairment and restructuring

Operating income before depreciation, amortization, impairment and restructuring increased \$10.8 million to \$65.4 million for the year ended August 31, 2018, as compared to the same period in the prior year. The increase in operating income before depreciation, amortization, impairment and restructuring was as a result of decreases in compensation, newsprint, distribution and other operating expenses, partially offset by decreases in revenue and increases in production expenses, all as discussed above.

Depreciation

Depreciation expense decreased \$2.0 million to \$21.2 million for the year ended August 31, 2018 as compared to the same period in the prior year. The decrease relates to the disposal of properties throughout the year ended August 31, 2017 and a change in the estimate of the useful lives of the production assets of our London printing facility which resulted in an acceleration of depreciation expense in the year ended August, 2017 partially offset by a change in the estimate of the useful lives of the production assets of our Islington printing facility which resulted in an acceleration of depreciation expense in the year ended August 31, 2018.

Amortization

Amortization expense decreased \$2.4 million to \$17.0 million for the year ended August 31, 2018 as compared to the same period in the prior year. The increase partially relates to the amortization expense of intangible assets acquired in the Torstar Transaction described earlier in "Recent Developments", partially offset by subscriber lists that were fully amortized in the year ended August 31, 2017.

Impairments

During the year ended August 31, 2018, we determined that certain properties carrying amounts will be recovered principally through a sales transaction as described earlier in "Recent Developments", and recorded an impairment charge of \$9.4 million to reduce the carrying amount to the estimated fair value less costs of disposal. During the year ended August 31, 2017, we performed our annual impairment testing of goodwill and indefinite life intangible assets and due to indicators of potential impairment, we performed interim impairment tests. As a result of the impairment tests, during the year ended August 31, 2017 we recognized an impairment charge of \$25.8 million allocated to our mastheads, domain names, subscriber lists, land and building of \$10.1 million, \$1.8 million, \$7.3 million, \$2.0 million and \$4.6 million, respectively.

Restructuring and other items

Restructuring and other items expense decreased \$11.4 million to \$26.5 million for the year ended August 31, 2018 as compared to the same period in the prior year. Restructuring and other items expense for the year ended August 31, 2018 consists of severance costs of \$24.3 million, which include both involuntary terminations and voluntary buyouts, provisions for onerous leases related to unoccupied property and onerous contracts of \$0.8 million and \$0.9 million, respectively, and \$0.5 million of acquisition costs related to the Torstar Transaction as described earlier in "Recent Developments". Restructuring and other items expense for the year ended August 31, 2017 consisted of severance costs of \$50.0 million, which included both involuntary terminations and voluntary buyouts, \$0.4 million for onerous leases related to unoccupied property and \$12.1 million of costs related to the Recapitalization Transaction as described earlier in "Recent Developments", partially offset by a curtailment gain of \$24.7 million related to changes to our employee benefit plans, as discussed previously in "Recent Developments".

Operating loss

Operating loss decreased \$38.0 million to \$8.7 million for the year ended August 31, 2018, as compared to the same period in the prior year. The decrease in operating loss is the result of decreases in impairment, depreciation and restructuring and other items expenses, partially offset by increases in operating income before depreciation, amortization, impairment and restructuring and amortization expense, all as discussed above.

Interest expense

Interest expense decreased \$5.2 million to \$27.5 million for the year ended August 31, 2018, as compared to the same period in the prior year. Interest expense primarily relates to interest on our long-term debt that is recognized using the effective interest rate method, which amortizes the initial debt issuance costs and includes both cash and non-cash interest. The decrease in interest expense relates to a decrease in cash interest of \$6.9 million, partially offset by an increase in non-cash interest of \$1.7 million. The decrease in cash interest expense is as a result of decreases in the amount of First-Lien Notes outstanding as described earlier in “Recent Developments”. The increase in non-cash interest is primarily related to an increase in the paid-in-kind interest on the New Second-Lien Notes that were issued on October 5, 2016 as part of the Recapitalization Transaction as described earlier in “Recent Developments”.

Gain on disposal of operations

During the year ended August 31, 2018, we completed a non-monetary transaction as described earlier in “Recent Developments” and recognized a gain on disposal of operations of \$4.7 million which represents the difference between the acquisition consideration, or the fair value properties transferred, and the carrying value of the net liabilities transferred.

Gain on debt settlement

During the year ended August 31, 2017, we settled our Second-Lien Notes through the issuance of shares as described earlier in “Recent Developments” and realized a gain on debt settlement of \$78.6 million. The gain on debt settlement was the difference between the carrying value of the Second-Lien Notes of \$354.1 million and the fair value of Shares issued on October 5, 2016 of \$275.5 million.

Net financing expense relating to employee benefit plans

Net financing expense relating to employee benefit plans decreased \$2.3 million to \$3.0 million for the year ended August 31, 2018, as compared to the same period in the prior year.

Gain on disposal of property and equipment and asset held-for-sale

During the year ended August 31, 2018, we disposed of property and equipment and assets held-for-sale and realized a gain of \$4.7 million, which includes a gain on sale of the London production facility and Regina facility of \$1.6 million and \$3.2 million, respectively. During the year ended August 31, 2017, we disposed of property and equipment and realized a gain of \$2.1 million, which includes a gain on sale of the Islington production facility of \$2.0 million

Gain on derivative financial instruments

Gain on derivative financial instruments for the year ended August 31, 2018 was \$1.2 million, as compared to \$1.0 million in the same period in the prior year. The gains in the years ended August 31, 2018 and 2017 relate to the revaluation of warrants acquired in January 2016 as part of a marketing collaboration agreement with Mogo Finance Technology Inc.

Foreign currency exchange (gains) losses

Foreign currency exchange losses for the year ended August 31, 2018 were \$5.3 million as compared to foreign currency exchange gains of \$3.9 million during the same period in the prior year. Foreign currency exchange losses in the year ended August 31, 2018 consist primarily of unrealized losses of \$5.5 million related to changes in the carrying value of the New Second-Lien Notes. Foreign currency exchange gains in the year ended August 31, 2017 consisted primarily of unrealized gains of \$4.6 million related to changes in the carrying value of the New Second-Lien Notes and foreign currency exchange losses of \$1.8 million related to the Second-Lien Notes.

Earnings (loss) before income taxes

Loss before income taxes was \$33.9 million for the year ended August 31, 2018, as compared to earnings before income taxes of \$0.8 million for the same period in the prior year. The loss before income taxes is primarily the result of the gain on debt settlement in the year ended August 31, 2017 partially offset by a decrease in operating loss and the gain on disposal of operations in the year ended August 31, 2018 and a decrease in interest expense all as discussed above.

Provision for income taxes

We have not recorded a current or deferred tax expense or recovery for the year ended August 31, 2018 and 2017. Current taxes payable or recoverable result in a decrease or increase, respectively, to our tax loss carryforward balances. The cumulative tax loss carryforward balances have not been recognized as a net deferred tax asset on the consolidated statement of financial position.

Net earnings (loss) from continuing operations

Net loss from continuing operations was \$33.9 million for the year ended August 31, 2018, as compared to net earnings from continuing operations of \$0.8 million for the same period in the prior year. Net loss from continuing operations is as a result of the factors described above in earnings (loss) before income taxes and provision for income taxes.

Net earnings from discontinued operations

Net earnings from discontinued operations for the year ended August 31, 2017 was \$43.9 million and consisted of a gain on sale of Infomart, which was sold August 15, 2017, of \$36.4 million and net earnings from discontinued operations of \$7.5 million. Refer to note 6 of our audited consolidated financial statements for the years ended August 31, 2018 and 2017 for more details on net earnings from discontinued operations.

Net earnings (loss) attributable to equity holders of the Company

Net loss was \$33.9 million for the year ended August 31, 2018, as compared to net earnings of \$44.8 million for the same period in the prior year, as a result of the factors described above in net earnings (loss) from continuing operations and net earnings from discontinued operations.

Consolidated quarterly financial information

(\$ in thousands of Canadian dollars, except per share information)	Fiscal 2018				Fiscal 2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenues.....	158,677	171,049	157,577	188,990	176,813	194,045	180,799	214,850
Net earnings (loss) from continuing operations.....	(22,852)	(15,539)	(1,252)	5,773	2,417	11,133	(28,456)	15,750
Net earnings (loss) per share from continuing operations								
Basic.....	\$ (0.24)	\$ (0.17)	\$ (0.01)	\$ 0.06	\$ 0.03	\$ 0.12	\$ (0.30)	\$ 0.09
Diluted.....	\$ (0.24)	\$ (0.17)	\$ (0.01)	\$ 0.06	\$ 0.03	\$ 0.12	\$ (0.30)	\$ 0.09
Net earnings (loss) attributable to equity holders of the Company.....	(22,852)	(15,539)	(1,252)	5,773	40,327	13,046	(26,453)	17,835
Net earnings (loss) per share attributable to equity holders of the Company								
Basic.....	\$ (0.24)	\$ (0.17)	\$ (0.01)	\$ 0.06	\$ 0.43	\$ 0.14	\$ (0.28)	\$ 0.11
Diluted.....	\$ (0.24)	\$ (0.17)	\$ (0.01)	\$ 0.06	\$ 0.43	\$ 0.14	\$ (0.28)	\$ 0.11
Cash flows from (used in) operating activities.....	26,188	1,228	1,844	(2,458)	843	(11,268)	12,014	(37,919)

Liquidity and capital resources

Our principal uses of funds are for working capital requirements, debt servicing and capital expenditures. Based on our current and anticipated level of operations, we believe that our cash on hand and cash flows from operations and available borrowings under our ABL Facility will enable us to meet our working capital, debt servicing, capital expenditure and other funding requirements for the next twelve months. However, our ability to fund our working capital needs, debt servicing and other funding requirements depends on our future operating performance and cash flows. There are a number of factors which may adversely affect our operating performance and our ability to meet these obligations as described earlier in “Key Factors Affecting Operating Results”. Our cash flows from operating activities may be impacted by, among other things, the overall strength of the economy, competition from digital media and other forms of media as well as competition from alternative emerging technologies. In addition, in recent years there has been a growing shift in advertising dollars from newspaper advertising to other advertising formats, particularly online and other digital platforms such as search and social media websites. More recently, we have experienced continued declines in revenues due to ongoing economic and structural factors resulting in an increasingly challenging operating environment. We have significant debt obligations which currently include the First-Lien Notes (\$134.3 million) that mature in July 2021 and New Second-Lien Notes (US\$108.2 million) that mature in July 2023. These economic and structural factors related to our industry have had an impact on liquidity risk which is the risk that we will not be able to meet our financial obligations associated with existing and future financial liabilities that are and will be settled by delivering cash or another financial asset as they come due. We manage this risk by monitoring cash flow forecasts, implementing cost reduction initiatives as described earlier in “Recent Developments”, deferring or eliminating discretionary spending, monitoring and maintaining compliance with terms of the note indentures, identifying and selling redundant assets including certain real estate assets and utilizing the ABL Facility to provide additional liquidity during season fluctuations of the business.

Pursuant to the amended and restated First-Lien Note indenture, any net proceeds from an asset disposition in excess of \$0.1 million will be held in a collateral account by the First-Lien noteholders. When the aggregate amount of the collateral account exceeds \$1.0 million it will be used to make an offer to redeem an equal amount of First-Lien Notes. As at August 31, 2018, we have restricted cash of \$5.7 million (August 31, 2017 - \$67.8 million) which represents a portion of the Infomart Transaction proceeds paid into escrow to satisfy claims arising under the purchase agreement. During the year ended August 31, 2018, we sold property and equipment classified as held-for-sale for net proceeds of \$16.9 million and used \$78.9 million of restricted cash to redeem \$76.3 million aggregate principal amount of First-Lien Notes and pay accrued interest of \$2.6 million. During the year ended August 31, 2017, we sold property and equipment for net proceeds of \$35.0 million and used restricted cash of \$3.6 million to redeem \$3.5 million aggregate principal amount of First-Lien Notes and pay accrued interest of \$0.1 million.

Cash flows from (used in) operating activities

Our principal sources of liquidity are cash flows from operating activities. For the three months and year ended August 31, 2018, our cash flows from operating activities were inflows of \$26.2 million and \$26.8 million, respectively (2017 – inflows of \$0.8 million and outflows of \$36.3 million, respectively). Cash flows from operating activities increased \$25.4 million for the three months ended August 31, 2018, as compared to the same period in the prior year due to \$20.4 million of cash received relating to the tax credit as described earlier in “Recent Developments” and a decrease in cash restructuring and unoccupied lease payments of \$5.5 million, partially offset by a decrease in operating income before depreciation, amortization, impairment and restructuring. Cash flows from operating activities increase \$63.1 million for the year ended August 31, 2018, as compared to the same period in the prior year due to an increase in operating income before depreciation, amortization, impairment and restructuring, a decrease in cash interest payments of \$28.5 million which includes the payment of \$21.9 million of accrued interest related to the Second-Lien Notes in the year ended August 31, 2017 as described earlier in “Recent Developments”, a decrease in cash restructuring and unoccupied lease payments of \$13.5 million and a decrease in non-cash working capital as compared to the same period in the prior year.

As at August 31, 2018 we have cash of \$26.0 million (August 31, 2017 – \$10.8 million).

Cash flows from investing activities

For the three months and year ended August 31, 2018, our cash flows from investing activities were inflows of \$4.9 million and \$13.5 million, respectively (2017 – \$66.1 million and \$65.5 million, respectively). The net cash inflows from investing activities during the three months ended August 31, 2018 include net proceeds received from the sale of property and equipment and asset held-for sale of \$7.0 million, partially offset by outflows on capital expenditures related to property and equipment of \$0.3 million and intangible assets of \$1.7 million. The net cash inflows from investing activities during the three months ended August 31, 2017 included net proceeds of \$36.4 million received from the Infomart Transaction as described earlier in “Recent “Developments” and net proceeds received from the sale of property and equipment of \$30.9 million, partially offset by outflows on capital expenditures related to property and equipment of \$0.5 million and intangible assets of \$0.6 million. The net cash inflows from investing activities during the year ended August 31, 2018 include net proceeds received from the sale of property and equipment and asset held-for-sale of \$16.8 million, partially offset by outflows on capital expenditures related to property and equipment of \$0.9 million and intangible assets of \$2.3 million. The net cash inflows from investing activities during the year ended August 31, 2017 include net proceeds of \$36.4 million received from the Infomart Transaction as described earlier in “Recent “Developments” and net proceeds received from the sale of property and equipment and asset held-for-sale of \$34.9 million, partially offset by outflows on capital expenditures related to property and equipment of \$3.6 million and intangible assets of \$2.2 million.

Cash flows used in financing activities

For the three months and year ended August 31, 2018, our cash flows from financing activities were outflows of \$15.8 million and \$25.1 million, respectively (2017 – \$72.2 million and \$35.4 million, respectively). The cash outflows from financing activities during the three months ended August 31, 2017 includes outflows of \$6.8 million related to the repayment of First-Lien Notes and the repayment of the ABL Facility of \$9.0 million. The cash outflows from financing activities during the three months ended August 31, 2017 included net outflows from restricted cash of \$65.9 million and outflows of \$1.2 million related to the repayment of First-Lien Notes and the repayment of the ABL Facility of \$5.0 million. The net cash outflows from financing activities during the year ended August 31, 2018 includes outflows of \$87.1 million related to the repayment of First-Lien Notes and net inflows from restricted cash of \$62.0 million. The net cash outflows from financing activities during the year ended August 31, 2017 included outflows of \$81.3 million related to the repayment of First-Lien Notes, net outflows from restricted cash of \$62.9 million, \$1.0 million of debt issuance costs and \$0.2 million of share issuance costs, partially offset by inflows related to the net proceeds from the issuance of New Second-Lien Notes of \$110.0 million.

Indebtedness

As of August 31, 2018, we have \$134.3 million First-Lien Notes and US\$108.2 million New Second-Lien Notes outstanding (August 31, 2017 - \$221.5 million First-Lien Notes and US\$97.0 million New Second-Lien Notes). In addition to the cash transactions discussed above, during the year ended August 31, 2018, we issued additional New Second-Lien Notes in the amount of US\$11.2 million (\$14.2 million) related to paid-in-kind interest as part of the terms of the New Second-Line Notes indenture. The following tables set out the principal and carrying amount of our long-term debt outstanding as at August 31, 2018 and 2017. The first column of the table translates, where applicable, our US dollar debt to the Canadian equivalent based on the closing foreign exchange rate on August 31, 2018 of US\$1:\$1.3055 (August 31, 2017 – US\$1:\$1.2536).

(\$ in thousands of Canadian dollars)	As at August 31, 2018			As at August 31, 2017		
	Principal Outstanding	Financing fees, discounts and other	Carrying Value	Principal Outstanding	Financing fees, discounts and other	Carrying Value
First-Lien Notes.....	134,344	(733)	133,611	221,493	(966)	220,527
New Second-Lien Notes.....	141,220	(227)	140,993	121,547	(811)	120,736
ABL Facility.....	-	-	-	-	-	-
	275,564	(960)	274,604	343,040	(1,777)	341,263

Financial Position as at August 31, 2018 and 2017

(\$ in thousands of Canadian dollars)	As at August 31, 2018	As at August 31, 2017
Current assets.....	122,424	178,574
Total assets.....	353,263	461,718
Current liabilities.....	119,211	195,948
Total liabilities.....	448,326	547,836
Deficiency.....	(95,063)	(86,118)

The decrease in our current assets is primarily due to a decrease in restricted cash and accounts receivable partially offset by an increase in cash due to the tax credit received as described earlier in “Recent Developments”. Total assets decreased as a result of the decrease in current assets as previously described and a decrease in the carrying value of property and equipment and intangible assets as a result of disposals, depreciation, amortization and impairment in excess of additions during the year ended August 31, 2018. Current liabilities have decreased due to a decrease in the current portion of long-term debt as a result of the repayments of First-Lien Notes and a decrease in provisions as a result of restructuring payments in excess of new provisions. The decrease in total liabilities is as a result of the decrease in current liabilities as previously described and decreases in employee benefit plan liabilities as a result of actuarial gains in the year ended August 31, 2018 partially offset by an increase in the carrying value of long-term debt.

Related Party Transactions

On October 5, 2016, upon Completion of the Recapitalization Transaction, Chatham owns approximately 61,166,689, or 65%, of our shares and in consideration for entering into the Backstop Commitment Letter received a fee of US\$4.2 million (\$5.5 million) which was used to acquire additional New Second-Lien Notes (note 5). In October 2016, we entered into a consulting agreement with an associated company of Chatham and during the three months and year ended August 31, 2018 incurred an expense of \$0.5 million and \$2.0 million, respectively (2017 - \$0.5 million and \$1.8 million, respectively), which is included in other operating expenses in the consolidated statement of operations. In addition, we have an ABL Facility with associated companies of Chatham as described earlier in "Recent Developments" and during the three months and year ended August 31, 2018, incurred interest expense of a nominal amount and \$0.5 million, respectively, and paid interest of \$0.2 million and \$0.6 million, respectively (year ended August 31, 2017 – incurred \$0.1 million and paid nil).

Financial Instruments and Financial Instruments Risk Management

Our activities expose us to a variety of financial risks: market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

Current risk management techniques utilized include monitoring fair value of derivative financial instruments, fair value of publicly traded debt, foreign exchange rates and interest rates with respect to interest rates and foreign currency risk, aging analysis and credit reviews for credit risk and cash flow projections for liquidity risk. Our enterprise risk management process is managed by a risk oversight committee composed of senior executives of Postmedia.

Foreign currency risk

As at August 31, 2018, approximately 51% of the outstanding principal on our long-term debt is payable in US dollars (August 31, 2017 – 35%). As at August 31, 2018, we have US\$108.2 million New Second-Lien Notes outstanding (August 31, 2017 – \$97.0 million).

Interest rate risk

The ABL Facility bears interest at floating rates while the First-Lien Notes and New Second-Lien Notes bear interest at fixed rates. Therefore, changes in interest rates only exposes us to cash flow interest rate risk on the portion of the ABL Facility that is drawn, if any, at the time of the interest rate change.

Credit risk

Credit risk is the risk of financial loss to Postmedia if a customer or counterparty to a financial asset fails to meet its contractual obligations. As at August 31, 2018, no individual balance represented a significant portion of our accounts receivable. We establish an allowance for doubtful accounts based on the specific credit risk of our customers and historical trends. The allowance for doubtful accounts amounted to \$4.4 million as at August 31, 2018 (August 31, 2017 – \$4.6 million).

We continuously monitor the financial condition of our customers, review the credit history of each customer, review the aging of accounts receivable, evaluate significant individual credit risk accounts and utilize each customer's historical experience in order to both grant credit and set up our allowance for doubtful accounts. If such collectability estimates prove inaccurate, adverse adjustments to future operating results could occur and could be material.

Liquidity risk

Liquidity risk is the risk that we will encounter difficulties in meeting our financial obligations associated with existing and future financial liabilities that are and will be settled by delivering cash or another financial asset as they come due. Our financial obligations include long-term debt which requires principal and interest payments. Economic and structural factors related to the industry impact our ability to generate sufficient operating cash flows to satisfy our existing and future financial liabilities, however we manage this risk by monitoring cash flow forecasts, implementing cost reduction initiatives, deferring or eliminating discretionary spending, monitoring and maintaining compliance with the terms of the note indentures, identifying and selling redundant assets including certain real estate assets and utilizing the ABL Facility to provide additional liquidity during seasonal fluctuations of the business.

Our obligations under firm contractual arrangements, including commitments for future payments under finance leases, operating leases, and pension funding and long-term debt agreements as at August 31, 2018 are as follows:

	2019	2020	2021	2022	2023	Thereafter
Finance lease.....	-	-	-	-	-	1,560
Operating leases and other.....	19,602	14,887	13,049	11,654	11,083	38,740
Estimated employee benefit plan funding obligations ⁽¹⁾	5,887	7,847	7,847	7,847	7,847	N/A
Long-term debt ⁽²⁾	8,718	10,000	115,626	-	242,939	-
Interest on long-term debt ⁽³⁾	10,717	9,982	10,944	-	-	-
	<u>44,924</u>	<u>42,716</u>	<u>147,466</u>	<u>19,501</u>	<u>261,869</u>	<u>40,300</u>

(1) Reflects expected contributions to our defined benefit pension benefit plans, post-retirement benefit plans and other long-term employee benefit plans. Information for our pension funding obligations is based upon our actuarial valuations dated November 27, 2017 and December 31, 2017 and does not include calculations of our funding obligations beyond fiscal 2023. Our next required actuarial funding valuations for its defined benefit pension plans will be as at November 27, 2020 and December 31, 2020 and must be complete by August 27, 2021 and September 30, 2021, respectively.

(2) Principal repayments of long-term debt are based on the mandatory contractual payments and assumes paid-in-kind interest to maturity on the New Second-Lien Notes translated to Canadian dollars based on the foreign exchange rate as at August 31, 2018 of US\$1:\$1.3055.

(3) Interest payments on long-term debt relate to the First-Lien Notes and are based on fixed contractual interest rates. Interest payments on the New Second-Lien Notes are included in repayments of long-term debt due to the assumption of paid-in-kind interest to maturity.

Guarantees and Off-Balance Sheet Arrangements

We do not have any significant guarantees or off-balance sheet arrangements.

Future Accounting Standards

There are several new standards and amendments to accounting standards which will be effective subsequent to the year ended August 31, 2018. The following new standards are expected to have a material impact on our consolidated financial statements or disclosures.

(i) IFRS 9 – Financial Instruments

The standard was issued in July 2014 and addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 – Financial Instruments – Recognition and Measurement. All financial assets are measured at fair value through profit or loss, fair value through other comprehensive income or amortized cost. All financial liabilities will continue to be measured at amortized cost however when a financial liability is modified but not extinguished the modification will be accounted for by discounting revised cash flows at the original effective interest rate. In addition, the new standard introduces a single expected credit loss model for all financial assets measured at amortized cost. Expected credit losses are the present value of cash shortfalls over the remaining expected life of the financial asset using either 12-month expected credit losses or lifetime expected credit loss. Finally, the new standard includes a new hedge accounting model that aligns with risk management activities undertaken by entities. The standard is required to be applied for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. During the year ended August 31, 2017, we amended and restated our first-lien debt to extend the maturity and redeemed \$77.8 million aggregate principal amount of notes as described earlier in “Recent Developments”. In accordance with IAS 39, the modification of the terms was not considered to result in an extinguishment of the initial borrowing and at the date of the modification no gain or loss was recognized in the statement of operations. Under IFRS 9, the cash flows must be discounted at the original effective interest rate resulting in the recognition of a gain on debt repayment of \$4.2 million in the year ended August 31, 2017. We will adopt the standard on a modified retrospective basis on September 1, 2018, which will include a reduction in deficit of \$1.8 million with a corresponding decrease in long-term debt but does not anticipate any further material impact.

(ii) IFRS 15 – Revenue from Contracts with Customers

The standard was issued in May 2014 and is a new standard that specifies the steps and timing for entities to recognize revenue as well as requiring them to provide more informative, relevant disclosures. The standard replaces IAS 11 - Construction Contracts and IAS 18 - Revenue, as well as various IFRIC and SIC interpretations regarding revenue. The standard is required to be applied for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. We have evaluated the new standard with respect to our various types of revenue and have preliminarily determined that it will not have a material impact on the consolidated financial statements. We will adopt the standard retrospectively on September 1, 2018 and will present additional disclosure upon adoption.

(iii) IFRS 16 – Leases

The standard was issued in January 2016 and replaces IAS 17 – Leases. The new standard provides a single lessee accounting model which eliminates the distinction between operating and finance leases. In particular, lessees will be required to report most leases on the statement of financial position by recognizing right-of-use assets and related financial liabilities. Lessor accounting remains largely unchanged. The standard is required to be applied for annual periods beginning on or after January 1, 2019, with earlier adoption permitted for entities that would also adopt IFRS 15 – Revenue from Contracts with Customers. We do not intend to early adopt this standard and the impacts on the consolidated financial statement has not yet been determined

Risk Factors

The risks and uncertainties described below are those we currently believe to be material, but should not be considered exhaustive. If any of the following risks, or any other risks and uncertainties that we have not yet identified or that we currently consider not to be material, actually occur or become material risks, our business, financial condition, results of operations and cash flows and consequently the price of our shares, the First-Lien Notes and New Second-Lien Notes could be materially and adversely affected.

Risks Relating to Our Business

Competition from digital and other forms of media may impair our ability to generate advertising and circulation revenue.

Participants in the newspaper publishing industry depend primarily upon advertising sales, paid subscriptions and single copy newspaper sales in order to generate revenue. Competition for advertising, subscribers, readers and distribution is intense and comes primarily from digital media, as well as, television; radio; local, regional and national newspapers; magazines; free publications; direct mail; telephone directories; and other communications and advertising and subscriber-based media that operate in these markets. In addition, in recent years there has been a growing shift in advertising dollars from newspaper advertising to other advertising platforms, including digital media competitors such as search and social media. Participants in the digital media industry also depend upon the sale of advertisements and paid subscriptions in order to generate revenue. The digital media industry experiences additional competitive challenges because barriers to entry are low and geographic location is less relevant.

Participants in digital media platforms may improve their ability to target specific audiences and therefore become an even more attractive media for advertisers. These circumstances could result in our newspaper online media not being as competitive as they are currently in relation to these other forms of media. In order to respond to changing circumstances, the costs of producing or promoting editorial content may increase, or we may need to reduce our advertising and/or subscription rates, either of which could adversely affect our financial performance. Increased competition could also lead to additional expenditures for editorial content and marketing.

In addition, there is increasing consolidation in the Canadian newspaper publishing and other media industries, and competitors increasingly include market participants with interests in multiple media. These competitors may be more attractive than we are to certain advertisers because they may be able to bundle advertising sales across newspaper, television and internet platforms. Some of these competitors also have access to greater financial and other resources than we do.

Our ability to continue to compete successfully in the newspaper and online media industries and to attract advertising dollars, subscribers and readers will depend upon a number of factors, including:

- our continued ability to offer high-quality editorial content;
- the variety, quality and attractiveness of our products and services;
- the pricing of our products and services;
- the platforms on which our products and services are offered;
- the manner in which we market and promote our products and services;
- the effectiveness of the distribution of our products and services;
- our customer service; and

- the emergence of technologies resulting in further shifts from newspaper advertising to advertising in other formats, including new media outlets.

These factors are largely dependent upon on our ability to:

- identify and successfully respond to changes in technology, customer trends and preferences and online digital platforms such as search and social media;
- develop new products across our business lines;
- protect our intellectual property and avoid infringing the intellectual property rights of others;
- avoid damage to our brands or reputation;
- appeal to many demographics; and
- expand into new distribution channels, particularly with respect to digital media and online products.

There can be no assurance that existing and future competitors will not pursue or be capable of achieving similar or competitive business strategies. In addition, there can be no assurance that we will be able to compete successfully with existing or potential competitors, or that increased competition will not have an adverse effect on our business, financial condition or results of operations.

Advertising revenue is the largest component of our revenues and our advertising revenue is influenced by prevailing economic conditions and the prospects of our advertising customers. Advertising revenue has been declining since 2009.

We generate revenue primarily from the sale of advertising. Advertising revenue, including both print and digital advertising represented 60.4% of our consolidated revenues in the year ended August 31, 2018 (2017 – 61.2%).

Advertising revenue is affected in part by prevailing economic conditions. Adverse economic conditions generally, and downturns in the Canadian economy specifically, have a negative impact on the Canadian advertising industry and, consequently, on our financial prospects. We have been experiencing a decline in advertising revenue since 2009.

Our advertising revenue is also dependent on the prospects of our advertising customers. Certain of our advertising customers operate in industries that may be cyclical or sensitive to general economic conditions, such as the automobile, financial, employment, technology, retail, food and beverage, telecommunications, travel, packaged goods and entertainment industries. Advertising customers could alter their spending priorities and reduce their advertising budgets in the event of a downturn in their business or prospects which would have an adverse effect on the revenue we generate from advertising. In addition, because a substantial portion of our revenue is derived from retail advertisers, our business, financial condition and results of operations would also be adversely affected by a further downturn in the retail sector.

A further reduction in advertising revenues could result from:

- the continuing shift from newspaper advertising to advertising in other formats, including new media outlets;
- a decline in economic conditions;
- a decline in the circulation volume of our newspapers, which appears to be permanent;

- a decline in popularity of our editorial content or perceptions about our brands;
- a change in the demographic makeup of the populations to which our newspapers are targeted;
- the activities of our competitors, including increased competition from other forms of advertising-based media (e.g., magazines, radio and television broadcasters, cable television, direct mail and electronic media), and online digital platforms such as search and social media; and
- a decline in the amount spent on advertising in general or in particular industries such as those discussed above.

To the extent the economic conditions worsen and the structural shifts in advertising revenue and circulation continue, our business and advertising revenues will continue to be adversely affected, which would in turn adversely impact our operations and cash flows.

Our failure to maintain our print and online newspaper readership and circulation levels would limit our ability to generate advertising and circulation revenue.

Our ability to attract advertisers and thereby generate revenue and profits is dependent in large part upon our success in attracting readership of the newspapers and online publications that we publish. Readership and to a lesser extent circulation volume are the key drivers of advertising prices and revenue in the Canadian news and newspaper information industry.

We believe reader acceptance is a function of the editorial and advertising content being offered and is influenced by a number of factors, including:

- the availability of alternative forms of news and other editorial content;
- the availability of alternative forms of media technologies, such as the internet and other new media formats, that are often free for users;
- a growing preference among some customers to receive all or a portion of their news from sources other than from a newspaper;
- increases in subscription and newsstand rates;
- general economic conditions, including the resulting decline in consumer spending on discretionary items such as newspapers;
- reviews of critics, promotions, the quality and acceptance of other competing editorial content in the marketplace;
- public tastes and perceptions generally; and
- other intangible factors.

Circulation volumes of our newspapers have been declining in both the home delivery and single copy distribution channels. The rate of circulation decline could increase due to changing media consumption patterns of our readers or other factors, and these declines appear to be permanent. If we are unable to stop these declines or if the rate of decline were to accelerate, it will result in lower readership and circulation levels and, consequently, may lead to decreased advertising and other revenues.

Although we make significant investments in the editorial content of our newspapers, there can be no assurance provided that our newspapers will maintain satisfactory readership or circulation levels and any decrease in such levels may be permanent. In addition, factors affecting our readership levels could change rapidly, and many of the changes may be beyond our control and permanent. Loss of readership could have a material adverse effect on our ability to generate advertising and circulation revenue.

We may not be able to achieve a profitable balance between circulation levels and advertising revenues.

We must balance our circulation levels with our advertising revenue objectives. This balancing necessitates a continuous effort that varies by publication and requires effective management of the circulation rate, the addition of new subscribers through cost-effective marketing methods and effective advertising operations. To maintain our readership and circulation rates, it may be necessary to incur additional costs that we may not be able to recover through circulation and advertising revenues. No assurance can be provided that we will be able to add and retain a sufficient number of newspaper subscribers in an economically efficient manner. Failure to do this could require reductions of our circulation rate or the elimination of certain products, which would negatively affect our advertising revenues and could materially and adversely affect our results of operations and financial condition.

We may not realize our anticipated cost savings from cost savings initiatives and any failure to manage costs would hamper profitability.

The level of our expenses impacts our profitability. Because of general economic and business conditions and our operating results, we have taken steps to lower operating costs by implementing cost savings initiatives including various transformation projects. In July 2015, we announced a plan to undertake cost reduction initiatives that are expected to come from a combination of acquisition synergies and further reorganization of our operations which were completed in November 2016. In October 2016, we announced that we intended to undertake additional cost reduction initiatives throughout fiscal 2017 including a company-wide voluntary buyout program which were completed in August 2017. During the year ended August 31, 2018, we began new initiatives, including the closure of nine community newspapers, with the objective of reducing compensation expenses by approximately 10% by the end of fiscal 2018 through a combination of involuntary terminations and voluntary buyouts. In total, we implemented net annualized cost savings of approximately \$47 million since these cost reduction initiatives commenced.

Estimates of cost savings are inherently uncertain, and we may not be able to achieve cost savings or expense reductions within the time frame we have projected or at all. Our ability to successfully realize savings and the timing of any realization may be affected by factors such as the need to ensure continuity in our operations, labour and other contracts, regulations and/or statutes governing employee/employer relationships, and other factors. In particular, certain of our collective bargaining agreements limit our ability to achieve operating efficiencies by limiting our ability to implement strategic initiatives. In addition, our implementation of these initiatives has and is expected to require upfront costs. There can be no assurance that we will be able to successfully contain our expenses or that even if our savings are achieved that implementation or other expenses will not offset any such savings. Our estimates of the future expenditures necessary to achieve the savings we have identified may not prove accurate, and any increase in such expenditures may affect our ability to achieve our anticipated savings. If these cost-control efforts do not reduce costs in line with our expectations, our financial position, results of operations and cash flows will be negatively affected.

We may be adversely affected by variations in the cost and availability of newsprint.

Newsprint is our largest raw material expense, representing approximately 6.4% of total operating expenses excluding depreciation, amortization, impairment and restructuring in the year ended August 31, 2018 (2017 – 6.6%). Newsprint is a commodity and, as such, price varies considerably from time to time as a result of, among other factors, foreign currency exchange fluctuations and supply shortfalls. The price of newsprint can increase as a result of various factors, including consolidation in the newsprint industry, which has resulted in a smaller number of suppliers and reduced competition on price among them, and declining newsprint supply as a result of mill closures and conversions to other grades of paper. Changes in newsprint prices can significantly impact our operating results. We would expect a \$50 per tonne increase or decrease in the price of newsprint to affect our operating expenses by approximately \$3.0 million on an annualized basis. There can be no assurance that we will not be exposed to increased newsprint costs, which could have a material adverse effect on our business, financial condition or results of operations. In addition, if newspaper suppliers experience labour unrest, transportation difficulties or other supply disruptions, our ability to produce and deliver newspapers could be impaired and the cost of the newsprint could increase, both of which would negatively affect our operating results.

Because a high percentage of our operating expenses are fixed, a decrease in advertising revenue could have a negative impact on our results of operations.

Newspaper publishing is both capital and labour intensive and, as a result, newspapers have relatively high fixed cost structures. Advertising revenue, on which we rely for a majority of our revenue, may fluctuate due to a variety of factors whereas our expenses do not vary significantly with the increase or decrease in advertising revenue. As a result, a relatively small change in advertising revenue could have a disproportionate effect on our results of operations. For example, during periods of economic contraction, our advertising revenue may decline while most costs remain fixed, resulting in decreased earnings, as has been evident in the current economic environment.

Our distribution costs could increase due to increases in fuel prices.

Although we do not incur significant fuel related distribution costs directly, our third-party distributors are adversely affected by rising fuel costs. Significant increases in fuel prices could result in increased fees paid to our distributors in the form of fuel subsidies or surcharges. Significant increases in fuel prices could result in material increases to our distribution expenses which could result in an adverse effect to our financial condition and results of operations.

We compete with alternative emerging technologies and may have to invest a significant amount of capital to address continued technological development.

The media industry is experiencing rapid and significant technological changes that have resulted in the development of alternative means of editorial content distribution. The continued growth of the internet has presented alternative content distribution options that compete with traditional media for advertising revenue. We may not be able to compete successfully with existing or newly developed alternative distribution technologies, or may be required to acquire, develop or integrate new technologies in order to compete. The cost of the acquisition, development or implementation of any such new technologies could be significant, and our ability to fund such implementation may be limited. In addition, even if we were able to fund such an implementation, we may be unable to implement any such technologies successfully. Any such event could have a material adverse effect on our business, financial condition or results of operations.

In addition, the continuing growth and technological expansion of internet-based services has increased existing competitive pressure on our businesses. As web-based and digital formats grab an increasingly larger share of consumer readership, we may lose customers or fail to attract new customers if we are not able to transition and update our publications and other products to these new and evolving formats. Furthermore, to the extent that advertisers continue to shift advertising dollars to new media outlets, advertising revenues will decrease even if we are able to maintain our current share of print media advertising dollars. The increased competition may have a material adverse effect on our business and financial results.

Our revenue, which is generated primarily from advertisers, is subject to seasonal variations, which may increase our borrowing needs at various points in the year.

Our revenue has experienced, and is expected to continue to experience, seasonal variances due to seasonal advertising patterns and seasonal influences on media consumption habits. Historically, our revenue is typically lowest during the fourth quarter of our fiscal year, which ends in August, and highest during the first and third quarters, which end in November and May, respectively, while expenses are relatively constant throughout the fiscal year. These seasonal variations may lead to short-term fluctuations in cash flow, which could consequently leave us in a more constrained liquidity position.

The collectability of accounts receivable could deteriorate to a greater extent than provided for in our financial statements.

In the normal course of business, we are exposed to credit risk for accounts receivable from our customers. Our accounts receivable are carried at net realizable value and our allowance for doubtful accounts has been determined based on several factors, including the aging of accounts receivable, evaluation of significant individual credit risk accounts and historical experience. If such collectability estimates prove inaccurate, adverse adjustments to future operating results could occur and could be material.

Increases in sales and other taxes could reduce our revenues and impact profit and cash flows.

In the markets in which we operate, some or all of our products are subject to local and national sales taxes and other taxes such as value-added taxes. Increases in taxes may have a negative effect on the sales of our products. Higher taxes may reduce profit margins on our products if we are unable to pass on the increase to our customers.

Failure to fulfill our strategy of building our digital media and online businesses would adversely affect our business prospects.

The competitive environment in which we operate demands, and our future growth strategies incorporate, the development of our digital media and online businesses. We believe the consumer preference for digital media and online products will accelerate as younger, more technologically savvy customers make up a greater portion of our potential customer base. In order for our digital media and online businesses to succeed, we must invest time and significant resources in them, to, among other things:

- accelerate the evolution of existing products (such as local newspaper websites and national content channels);
- develop new digital media and online products (such as redesigned classified sites in automotive, employment and real estate categories);
- develop new content channels (such as mobile optimized formats, online video capabilities and content for tablet devices);
- attract and retain talent for critical positions;
- transform our organization and operating model to grow our digital media and online business;

- continue to develop and upgrade our technologies and supporting processes to distinguish our products and services from those of our competitors;
- sell advertising in significant markets, and be a compelling choice for advertisers online;
- attract and retain a base of frequent, engaged visitors to our websites; and
- continuously advance our digital offerings based on fast-moving trends that may pose opportunities as well as risks (such as tablets and mobile applications).

No assurance can be provided that we will be successful in achieving these and other necessary objectives or that our digital media and online businesses will be profitable or successful. Our failure to adapt to new technology or delivery methods, or our choice of one technological innovation over another, may have an adverse impact on our ability to compete for new customers or to meet the demands of our existing customers. If our digital media and online businesses are not successful, we could lose significant opportunities for new advertising revenue from digital sources while also losing advertising revenue from traditional sources due to the reallocation from print to digital advertising currently taking place. If we are not successful in achieving our digital media and online objectives, our business, financial condition and prospects would be materially adversely affected.

Our business may suffer if we are not able to retain and attract sufficient qualified personnel, including key managerial, editorial, technical, marketing and sales personnel.

We operate in an industry where there is intense competition for experienced personnel. We depend on our ability to identify, recruit, hire, train, develop and retain qualified and effective personnel. Our future success depends in large part upon the continued contribution of our senior management and other key employees. A loss of a significant number of skilled managerial, editorial or technical personnel would have a negative effect on the quality of our products. Similarly, a loss of a significant number of experienced and effective marketing and sales personnel would likely result in fewer sales of our products and could materially and adversely affect our results of operations and financial condition. Our ability to identify, recruit, hire, train, develop and retain qualified and effective personnel depends on numerous factors, including factors that we cannot control, such as competition and conditions in the local employment markets in which we operate. The loss of the services of any of our senior management or other key employees could harm our business and materially and adversely affect our ability to compete in our markets. Although we have employment agreements with certain members of senior management and key employees, those individuals may choose to terminate their respective employment at any time, and any such termination may have a material adverse effect on our business.

We rely upon information systems and technology and other manufacturing systems, disruptions to which could adversely affect our operations.

Our newspaper and digital media and online operations rely upon information technology systems, and other complex manufacturing systems, in order to produce and distribute our products. Our information technology and manufacturing systems may be vulnerable to unauthorized access, computer viruses, system failures, human error, natural disasters, fire, power loss, communications failure or acts of sabotage or terrorism. If a significant disruption or repeated failure were to occur, our business or revenue could be adversely affected. There may also be significant costs incurred as a result of such disruptions or failures that adversely affect our financial performance or capital expenditure levels.

Equipment failure may have a material adverse effect.

There is a risk of equipment failure, primarily related to our printing facilities, due to wear and tear, latent defect, design error or operator error, among other things, which could have a material adverse effect on us. Although our printing facilities have generally operated in accordance with expectations, there can be no assurance that they will continue to do so. There may also be significant costs incurred as a result of such disruptions or failures that adversely affect our financial performance or capital expenditure levels.

Our operations could be adversely affected by labour disruptions, and labour agreements limit our ability to achieve operating efficiencies.

Approximately 31% of our staff are employed under 46 separate collective agreements as of August 31, 2018. A majority of our collective agreements include provisions that could impede restructuring efforts, including work force reduction, centralization, outsourcing and other initiatives. We are currently in negotiations with 13 bargaining units, covering 170 full-time equivalent employees, regarding expired agreements. In addition, we have 3 agreements that cover approximately 116 full-time equivalent employees that will expire by December 31, 2018. Of our remaining agreements, 2 expire in 2019.

There can be no assurance provided that any of these collective agreements will be renewed on satisfactory terms, or at all. Labour organizing activities could result in additional employees becoming unionized, which could result in higher ongoing labour costs and reduced flexibility in running our operations. In addition, labour disruptions or grievances could also affect our operations and certain unions have filed grievances against us alleging violations of one or more provisions of the applicable collective agreements. There can be no assurance provided that we will not experience other labour disruptions, or that a material grievance will not be decided against us, or that we will not experience other forms of labour protest. Any strike, lock out or other form of labour disruption could have a material adverse effect on our business, financial condition or results of our operations.

Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer.

In the ordinary course of our business, we collect and store sensitive data, including intellectual property, our proprietary business information and that of our customers, suppliers and business partners, as well as personally identifiable information of our customers (including credit card information) and employees, on our networks. The secure processing, maintenance and transmission of this information is critical to our operations and business strategy. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, disrupt our operations and the services we provide to customers, damage our reputation, and cause a loss of confidence in our products and services, which could adversely affect our business, financial condition, results of operations and cash flows.

The financial difficulties of certain of our contractors and vendors could have a negative impact on our results of operations.

The financial difficulties that some of our contractors and vendors may face, including one or more contractor or vendor bankruptcies due to poor economic conditions, may cause them to fail to provide us with products and/or services or may increase the cost of the products and services that they provide us. We may be unable to procure replacement products and/or services from other contractors or vendors in a timely and efficient manner and on acceptable terms, or at all. Any material change in these relationships, such as increased pricing, could have a material adverse effect on our business, financial condition, results of operations, liquidity and cash flow.

We outsource certain aspects of our business to third-party vendors that may fail to reduce costs and may subject us to risks, including disruptions in our business and increased costs.

We continuously seek to make our cost structure more efficient and to focus on our core strengths. These efforts include contracting with other companies to perform functions or operations that, in the past, we have performed ourselves. We currently rely on partners or third-party service providers for services such as the provision of advertising production, call centre services, and certain of our printing operations, and we may outsource additional business functions in the future. Although we believe that outsourcing will result in lower costs and increased efficiencies, this may not be the case. Because these third parties may not be as responsive to our needs as we might be ourselves or they experience problems to their own operations beyond our control, outsourcing increases the risk of disruption to our operations. If we are unable to effectively utilize, or integrate with, our outsource providers, or if these partners or third-party service providers experience business difficulties or are unable to provide business services as anticipated, we may need to seek alternative service providers or resume providing these business processes internally, which could be costly and time-consuming and have a material adverse effect on our business and results of operations.

The occurrence of natural or man-made disasters could disrupt the marketing and promotion and delivery of our products and services, and adversely affect our financial condition and results of operation.

The success of our businesses is largely contingent on the availability of direct access to customers. As a result, any event that disrupts or limits our direct access to customers or disrupts our ability to rely on delivery services would materially and adversely affect our business. We are exposed to various risks arising out of natural disasters, as well as man-made disasters, including acts of terrorism and military actions. The threat of terrorism and ongoing military actions may cause significant volatility in global financial markets, and a natural or man-made disaster could trigger an economic downturn in the areas directly or indirectly affected by the disaster. These consequences could, among other things, result in a decline in business from those areas. Disasters also could disrupt public and private infrastructure, including communications and financial services, which could disrupt our normal business operations. In addition, increased energy costs, strikes and other labour-related supply chain disruptions could adversely affect our business. A natural or man-made disaster also could disrupt the operations of our counterparties or result in increased prices for the products and services they provide to us.

Our registered pension plans liabilities or our inability to make required cash contributions to our pension plans could have a material adverse effect on us, our business, cash flows, operations and financial condition.

We maintain several defined benefit and defined contribution plans providing pension and other retirement and post-employment benefits to our employees. Provincial pension legislation requires that the funded status of registered defined benefit pension plans be determined on both a going concern basis (which essentially assumes the pension plan continues indefinitely) and a solvency basis (which essentially assumes a cessation of a pension plan, and is based on statutory requirements). Based on our most recently filed actuarial valuations as of November 27, 2017 and December 31, 2017, the aggregate going concern actuarial surplus was \$109.5 million and a wind up deficiency (which assumes that the pension plans terminate on their actuarial valuation dates) was \$60.6 million. The actual funded status of our pension plans and our contribution requirements are dependent on many factors, including regulatory developments and changes to legislation, changes to the level of benefits provided by the plans, actuarial assumptions and methods used, changes in plan demographics and experience, and changes in the economic conditions, such as the return on fund assets and changes in interest rates and other factors. Additionally, significant changes in investment performance or in a change in the portfolio mix of invested assets can result in corresponding increases and decreases in the valuation of plan assets, particularly equity securities, or in a change to the expected rate of return on plan assets. Significant variations in pension performance could produce volatility in our reported results and could necessitate higher company contributions to those plans, which could have a material effect on our cash flows, liquidity and financial condition.

Significant changes in pension fund investment performance or assumptions relating to pension costs may have a material effect on the valuation of pension obligations, the funded status of pension plans and our pension cost.

Our pension cost is materially affected by the discount rate used to measure defined benefit obligations, and the level of plan assets available to fund those obligations at the measurement date. A change in the discount rate could result in a significant increase or decrease in the valuation of pension obligations, affecting the reported funded status of our pension plans as well as the net pension cost in subsequent fiscal years.

Our editorial content may be controversial and may result in litigation.

We have had, in the ordinary course of our business, and expect to continue to have, litigation claims filed against us, most of which are claims for defamation arising from the publication of our editorial content. While we maintain insurance in respect of claims for defamation, some claims made against us may not be insured or may result in costs above our coverage limits. In the event that a judgement is rendered against us, there can be no assurance that our insurance coverage will cover that particular loss.

We are currently involved in unresolved litigation matters.

We are involved in various legal claims arising in the ordinary course of our newspaper and digital media and online businesses. The majority of these claims are brought pursuant to defamation laws in the province of publication. We maintain a multi-media liability insurance policy in respect of defamation claims. Subject to the terms and conditions of that policy, and the insurer's coverage position in respect of individual claims, the resolution of these matters is not expected to have a material adverse effect on our consolidated financial position, results of operations or cash flows.

The Competition Bureau is reviewing the Torstar Transaction

The Competition Bureau is reviewing the Torstar Transaction under the conspiracy provisions and merger provisions of the *Competition Act* (Canada) and we are cooperating with the Competition Bureau in connection with its investigations. In the event that the Competition Bureau seeks to initiate proceedings it could impact our business, financial performance or results of operations.

Disruptions in the credit markets could adversely affect the availability and cost of short-term funds for liquidity requirements, and could adversely affect our access to capital or our ability to obtain financing at reasonable rates and refinance existing debt at reasonable rates or at all.

If internal funds are not available from our operations, we may be required to rely on the banking and credit markets to meet our financial commitments and short-term liquidity needs. Disruptions in the capital and credit markets could adversely affect our ability to access additional funds in the capital markets or draw on or refinance our existing or any future credit facilities. Although we believe that our operating cash flow and access to capital and credit markets will give us the ability to meet our financial needs for the foreseeable future, there can be no assurance provided that continued or increased volatility and disruption in the capital and credit markets will not impair our liquidity. If this should happen, we may not be able to put alternative credit arrangements in place or without a potentially significant increase in our cost of borrowing. As of August 31, 2018, we have \$134.3 million First-Lien Notes and US\$108.2 million New Second-Lien Notes outstanding.

We may be adversely affected by the availability and terms of our insurance policies.

We carry liability, property and casualty insurance and director and officer liability insurance coverage subject to certain deductibles, limits and exclusions which we believe are customary or reasonable given the cost of procuring insurance and current operating conditions. However, there can be no assurance that: (i) such insurance coverage will continue to be offered on economically feasible terms, (ii) all events which could give rise to a loss or liability will be insurable, or (iii) the amounts of insurance coverage will at all times be sufficient to cover each and every material loss or claim which may occur involving our assets or operations.

Our intellectual property rights are valuable, and any inability to protect them or liability for infringing the intellectual property rights of others could reduce the value of our services and our brands.

We rely on the trademark, copyright, internet/domain name, trade secret and other laws of Canada and other countries, as well as nondisclosure and confidentiality agreements, to protect our intellectual property rights. However, we may be unable to prevent third parties from using our intellectual property without our authorization, breaching any nondisclosure agreements with us, acquiring and maintaining domain names that infringe or otherwise decrease the value of our trademarks and other proprietary rights, or independently developing intellectual property that is similar to ours, particularly in those countries that do not protect our proprietary rights as fully as in Canada. The use of our intellectual property by others could reduce or eliminate any competitive advantage we have developed, cause us to lose sales or otherwise harm our businesses. If it became necessary to litigate to protect these rights, any proceedings could be burdensome and costly, and we may not prevail.

We have obtained and applied for several Canadian and foreign service mark and trademark registrations, and will continue to evaluate the registration of additional service marks and trademarks, as appropriate. We cannot guarantee that any of our pending applications will be approved by the applicable governmental authorities. Moreover, even if the applications are approved, third parties may seek to oppose or otherwise challenge these registrations. A failure to obtain trademark registrations in Canada and in other countries could limit our ability to protect our trademarks and impede our marketing efforts in those jurisdictions.

We cannot be certain that our intellectual property does not and will not infringe the intellectual property rights of others. We may be subject to legal proceedings and claims in the ordinary course of our business, including claims of alleged infringement of the trademarks, copyrights and other intellectual property rights of third parties. Any such claims, whether or not meritorious, could result in costly litigation and divert resources and the efforts of our personnel. Moreover, should we be found liable for infringement, we may be required to enter into licensing agreements (if available on acceptable terms, or at all) or to pay damages and to cease using certain trademarks or copyrights or making or selling certain products, or to redesign or rename some of our products or processes to avoid future infringement liability. Any of the foregoing could cause us to incur significant costs.

We maintain many well-known mastheads, consumer brands and trademarks, damage to the reputation of any of which could have an adverse impact upon our business, financial performance or results of operations.

The mastheads, brand names and trademarks that we own are well-known to consumers and are important in maintaining existing business and sourcing new business, as our ability to attract and retain customers is in part dependent upon our external perceptions, the quality of our products and services and our integrity. Damage to the reputation of any of these brands or negative publicity or perceptions about us could have an adverse impact upon the business, financial performance or results of operations.

We may have additional asset impairments.

We conduct annual impairment testing to determine if we will be able to recover all or a portion of the carrying value of indefinite life intangible assets. In addition, we are required to review indefinite life intangible assets for impairment more frequently if impairment indicators arise. If the recoverable amount is less than the carrying amount of our indefinite life intangible assets, we may be required to record a non-cash charge to the statement of operations. As disclosed in note 9 of our audited consolidated financial statements for the years ended August 31, 2018 and 2017, we recognized impairment charges of \$9.4 million (2017 – \$25.8 million). We monitor impairment indicators on a quarterly basis. Significant changes in market conditions, and estimates or judgements used to determine expected future cash flows that indicate a reduction in carrying value, may give rise to impairments in the period that the change becomes known and such impairments could have a material adverse effect on our results of operations.

We are subject to environmental, health and safety laws and regulations, which could subject us to liabilities, increase our costs or restrict our business or operations in the future.

We are subject to a variety of laws and regulations concerning emissions to the air, water and land, sewer discharges, handling, storage and disposal of, or exposure to, hazardous substances and wastes, recycling, remediation and management of contaminated sites, or otherwise relating to protection of the environment and employee health and safety. Environmental laws and regulations and their interpretation have become increasingly more stringent, and we may incur additional expenses to comply with existing or future requirements. If we fail to comply with environmental or health and safety requirements we could incur monetary fines, civil or criminal sanctions, third-party claims or cleanup obligations or other costs. In addition, our compliance with environmental and health and safety requirements could restrict our ability to expand our operations or require us to install costly pollution control equipment, incur other significant expenses or modify our printing processes.

We use and store hazardous substances such as inks and solvents in conjunction with our operations at our printing facilities. Such hazardous substances have in the past been stored in underground storage tanks at some of our properties. Some of our printing and other facilities are located in areas with a history of long-term industrial use, and they may be impacted by past activities onsite or by contamination emanating from nearby industrial sites. In the past, we have had contamination resulting from leaks and spills at some of our locations. We have not conducted environmental site assessments with respect to all of our owned and leased facilities, and where such assessments have been conducted, they may not have identified all potential causes of environmental liability. There can be no assurance provided that remediation costs or potential claims for personal injury or property or natural resource damages resulting from any newly-occurring or newly-discovered contamination will not be material, or that a material environmental condition does not otherwise exist at any of our properties.

Risks Relating to Regulatory Compliance

Failure to comply with “Canadian newspaper” status would materially affect our financial results and our business prospects.

Under the Tax Act, generally no deduction is allowed for an outlay or expense for advertising space in an issue of a newspaper for an advertisement directed primarily to a market in Canada, unless the issue is a “Canadian issue” of a “Canadian newspaper.”

In order to qualify as a “Canadian issue”, the issue generally must have its type set in Canada, be edited in Canada by individuals resident in Canada for purposes of the Tax Act and be printed and published in Canada. Issues of our newspapers currently meet these criteria.

The test of whether a newspaper is a “Canadian newspaper” depends on the jurisdiction, governance, factual control and share ownership of the corporation which directly publishes the newspaper. We publish our newspapers directly. In order to satisfy the requirements of a “Canadian newspaper” (subject to a statutory 12 month grace period), we must satisfy the following: (i) the corporation must be incorporated under the laws of Canada or a province thereof, (ii) the chairperson or other presiding officer and at least 75% of the directors or other similar officers of the corporation must be Canadian citizens, and (iii) the corporation must not be controlled, in fact, directly or indirectly, by persons or partnerships who could not themselves hold the right to produce and publish issues of a “Canadian newspaper”, including by citizens or subjects of a country other than Canada.

In addition, under the share ownership requirements, at least 75% of a non-public corporation’s voting shares and shares having a fair market value in total of at least 75% of the fair market value of all issued shares of a non-public corporation, must be beneficially owned by either (i) Canadian citizens or (ii) one or more Qualifying Public Corporations. Upon the listing of Postmedia Network Canada Corp’s shares on the Toronto Stock Exchange (“TSX”), it became a Qualifying Public Corporation. As Postmedia Network Inc. is a direct, wholly-owned subsidiary of Postmedia Network Canada Corp., our newspapers qualify as “Canadian newspapers”.

Issues of our newspapers therefore qualify as “Canadian issues” of “Canadian newspapers” (or otherwise fall outside of the limitation on deductibility of advertising expenses) and as a result advertisers currently have the right to deduct their advertising expenditures for Canadian tax purposes.

There can be no assurance that issues of the newspapers published or produced by us will continue to be “Canadian issues” of “Canadian newspapers” under the Tax Act, or that Canadian federal income tax laws respecting the treatment of deductibility of advertising expenses incurred in relation to “Canadian issues” of “Canadian newspapers” will not be changed in a manner which adversely affect us.

If our newspapers cease to be “Canadian newspapers” for purposes of the Tax Act, it is expected that our advertising revenue will decline significantly, which would have a material adverse effect on our business, financial condition and results of operations.

We are subject to the requirements of Regulation 52-109 on Certification of Disclosure in Issuers’ Annual and Interim Filings and must devote time and resources to maintain compliance.

Our shares are listed on the TSX and as a result we are subject to the requirements of Regulation 52-109, which requires, among other things, public companies to maintain disclosure controls and procedures to ensure timely disclosure of material information, and, to have management review the effectiveness of those controls on an annual basis. These requirements may place a strain on our systems and resources. Regulation 52-109 also requires public companies to have and maintain internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements and to have management review the effectiveness of those controls on an annual basis following the filing of a company’s first annual report. In order to maintain and improve our disclosure controls and procedures and internal control over financial reporting, significant resources and management oversight are required. This may divert management’s attention from other business concerns, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

If we fail to maintain an effective system of internal controls, we may not be able to provide timely and reliable financial reports.

We are responsible for establishing and maintaining adequate internal control over financial reporting, which is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Regulatory pressures are increasing resulting in increasing compliance requirements and our business could be adversely affected by additional changes in laws.

Regulatory pressures are increasing as new and evolving regulations and compliance standards are established in respect of various areas, including without limitation, cyber security, data protection, privacy and advertising. These regulations and standards require expensive and time-consuming compliance measures and we incur increased costs in order to comply with such regulations and standards and we may pay penalties for any failure to comply.

Changes to the laws, regulations and policies governing our operations, the introduction of new laws, regulations or policies and changes to the treatment of the tax deductibility of advertising expenditures could have a material effect on our business, financial condition, prospects and results of operations. In addition, we may incur increased costs in order to comply with existing and newly adopted laws and regulations or pay penalties for any failure to comply. It is difficult to predict in what form laws and regulations will be adopted or how they will be construed by the relevant courts, or the extent to which any changes might adversely affect us.

Risks Related to our Indebtedness

Our substantial indebtedness could adversely affect our financial condition.

As of August 31, 2018, total carrying value of amounts outstanding under our respective debt agreements was \$274.6 million (August 31, 2017 - \$341.3 million).

Subject to the limits contained in the amended and restated indenture that governs the First-Lien Notes and the indenture that governs the New Second-Lien Notes, we may be able to incur substantial additional debt from time to time to finance working capital, capital expenditures, investments or acquisitions, or for other purposes. If we do so, the risks related to our high level of debt could intensify. Specifically, our high level of debt could have important consequences, including the following:

- making it more difficult for us to satisfy our obligations with respect to the First-Lien Notes and New Second-Lien Notes;
- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions or other general corporate requirements;
- requiring a substantial portion of our cash flows to be dedicated to debt service payments instead of other purposes, thereby reducing the amount of cash flows available for working capital, capital expenditures, acquisitions and other general corporate purposes;
- increasing our vulnerability to general adverse economic and industry conditions;
- exposing us to the risk of increased interest rates if of our borrowings are at variable rates of interest;

- limiting the flexibility in planning for and reacting to changes in the industry in which we compete;
- placing us at a disadvantage compared to other, less leveraged competitors; and
- increasing our cost of borrowing.

In addition, the amended and restated indenture that governs the First-Lien Notes and the indenture that governs the New Second-Lien Notes contain restrictive covenants that limit our ability to engage in activities that may be in our long-term best interests. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all our debts.

Despite our current level of indebtedness, we may be able to incur substantially more debt. This could further exacerbate the risks to our financial condition described above.

Our operating subsidiary may be able to incur significant additional indebtedness in the future. Although the amended and restated indenture that governs the First-Lien Notes and the indenture that governs the New Second-Lien Notes contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions and the additional indebtedness incurred in compliance with these exceptions could be substantial. We may be able to issue additional First-Lien Notes under the indenture under certain circumstances, and may be able to incur other indebtedness that ranks equally with the First-Lien Notes. These borrowings would be secured indebtedness. If new debt is added to our current debt levels, the related risks that we and our operating subsidiary now face could intensify.

The terms of the First-Lien Notes and the New Second-Lien Notes restrict our current and future operations, particularly our ability to respond to changes or to take certain actions.

The amended and restated indenture that governs the First-Lien Notes and the indenture that governs the New Second-Lien Notes contain a number of restrictive covenants that impose significant operating and financial restrictions on us and may limit our ability to engage in acts that may be in our long-term best interests, including, among other things, restrictions on our ability to:

- incur additional indebtedness;
- pay dividends or make other distributions or repurchase or redeem certain indebtedness or capital stock;
- make loans and investments;
- sell assets;
- incur certain liens;
- enter into transactions with affiliates;
- alter the businesses we conduct;
- enter into agreements restricting any subsidiary's ability to pay dividends; and
- consolidate, merge or sell all or substantially all of our assets.

A breach of the covenants under the amended and restated indenture that governs the First-Lien Notes and the indenture that governs the New Second-Lien Notes could result in an event of default under the applicable indebtedness. Such default may allow our creditors to accelerate the repayment of the related debt and may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies. Furthermore, if we are unable to repay the amounts due and payable under First-Lien Notes or the New Second-Lien Notes, the applicable lenders could proceed against the collateral granted to such lenders to secure the indebtedness under the applicable facility. As a result of these restrictions, we may be:

- limited in how we conduct our business;
- unable to raise additional debt or equity financing to operate during general economic or business downturns; or
- unable to compete effectively or to take advantage of new business opportunities.

These restrictions may affect our ability to grow in accordance with our plans.

We may not be able to generate sufficient cash to service all of our indebtedness and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business, legislative, regulatory and other factors beyond our control. We may be unable to maintain a level of cash flows from operating activities sufficient to permit us to pay the future amounts due on our indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we could face substantial liquidity problems and could be forced to reduce or delay investments and capital expenditures or to dispose of material assets or operations, seek additional debt or equity capital or restructure or refinance indebtedness. We may not be able to affect any such alternative measures, if necessary, on commercially reasonable terms, or at all and, even if successful, such alternative actions may not allow us to meet our scheduled debt service and derivative financial instrument obligations. The amended and restated indenture that governs the First-Lien Notes and the indenture that governs the New Second-Lien Notes restrict our ability to dispose of assets and use the proceeds from any such dispositions and may also restrict our ability to raise debt or equity capital to be used to repay other indebtedness when it becomes due. We may not be able to consummate those dispositions or to obtain proceeds in an amount sufficient to meet any debt service and derivative financial instrument obligations then due.

Our inability to generate sufficient cash flows to satisfy our debt and derivative financial instrument obligations, or to refinance indebtedness on commercially reasonable terms, or at all, would materially and adversely affect our business, financial position and results of operations, and our ability to satisfy such obligations.

If we cannot make scheduled payments on our debt, we will be in default and, as a result, holders of the First-Lien Notes and New Second-Lien Notes could declare all outstanding principal and interest to be due and payable. In addition, our secured lenders could foreclose on or exercise other remedies against the assets securing such borrowings on a basis senior to the First-Lien Notes and we could be forced into bankruptcy, liquidation or other insolvency proceedings.

We may be adversely affected by foreign exchange fluctuations.

As of August 31, 2018, approximately 51% of the outstanding principal of our long-term debt is denominated in US dollars and interest and principal on such borrowings must be paid in US dollars. As at August 31, 2018, we have US\$108.2 million of New Second-Lien Notes outstanding. Canadian currency is volatile and may retain the same or higher levels of volatility in the coming years. As a result, we have significant exposure to foreign exchange rate risk.

Risks Relating to Our Shares

An active public market for the Shares has not yet been developed.

Our Class C voting shares and our Class NC variable voting shares (“Shares”) trade on the TSX. An active public market for the Shares has not yet developed and, if developed, may not be sustained. If an active public market does not develop, the liquidity of an investment in our Shares, and therefore the ability to buy or sell our Shares at or near the market price, may be limited.

Volatile market price for the Shares.

The market price for the Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond our control, including the following:

- the lack of liquidity in the trading of our Shares;
- actual or anticipated fluctuations in our quarterly results of operations;
- changes in estimates of future results of operations by ourselves or securities research analysts;
- changes in the economic performance or market valuations of other companies that investors deem comparable to us;
- addition or departure of our executive officers and other key personnel;
- release or other transfer restrictions on outstanding Shares;
- sales or perceived sales of additional Shares;
- our dual class share structure;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving ourselves or our competitors; and
- news reports relating to trends, concerns or competitive developments, regulatory changes and other related issues in our industry or target markets.

Financial markets are susceptible to significant price and volume fluctuations that may affect the market prices of equity securities of companies and may be unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Shares may decline even if our operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of our environmental, governance and social practices and performance against such institutions’ respective investment guidelines and criteria, and failure to meet such criteria may result in a limited or no investment in the Shares by those institutions, which could adversely affect the trading price of the Shares. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, our operations could be adversely impacted and the trading price of the Shares may be adversely affected.

We have a dual class share structure.

Our authorized capital consists of two classes: Voting Shares and Variable Voting Shares. The Voting Shares may only be beneficially owned by persons that are Canadian. If a Canadian acquires Variable Voting Shares, such Shares will be automatically converted into Voting Shares. A holder of Voting Shares, however, has the option at any time to convert some or all of such Shares into Variable Voting Shares and to convert those Shares back to Voting Shares. Given these conversion features and the fact that we will not know whether a purchaser of Variable Voting Shares is a Canadian unless such person completes a declaration provided by our transfer agent, the transfer agent's records of the amount of Voting Shares and Variable Voting Shares outstanding at any one time may not be accurate. As we believe that the issued and outstanding Variable Voting Shares as at August 31, 2018 represent more than 99% of the outstanding Shares, if a Canadian acquires Variable Voting Shares such Shares would automatically convert into a larger percentage of the outstanding Voting Shares and would provide the purchaser with a larger percentage of the votes than such purchaser would have through the ownership of Variable Voting Shares. Depending on the number of Voting Shares acquired, such an acquisition could give rise to the requirement to make certain filings and/or could result in the purchaser being a "control person", in each case under applicable securities laws. In certain circumstances, such an acquisition may constitute an indirect take-over bid under applicable securities laws and require the offeror to make a formal take-over bid for the outstanding Voting Shares or, alternatively, rely on certain exemptions from the formal take-over bid requirements under applicable securities laws. Purchasers of our Shares should consider applicable take-over bid laws as well as the Postmedia Rights Plan prior to purchasing Shares that may represent more than 20% of any class. For purposes of determining beneficial ownership under the Postmedia Rights Plan, Variable Voting Shares beneficially owned or controlled by a person or subject of Canada are deemed to also include the Voting Shares into which such Variable Voting Shares could be converted. In addition, one class of Shares may be less liquid than the other and the classes of Shares may have different trading prices.

Postmedia Network Canada Corp. is a holding company.

Postmedia Network Canada Corp. ("PNCC") is a holding company and a substantial portion of its assets are the capital stock of its subsidiary, Postmedia Network Inc. ("PMNI"). As a result, investors in PNCC are subject to the risks attributable to PMNI. As a holding company, PNCC conducts substantially all of its business through PMNI, which generates substantially all of its revenues. Consequently, PNCC's cash flows and ability to complete current or desirable future enhancement opportunities are dependent on the earnings of PMNI and the distribution of those earnings to PNCC. The ability of PMNI to pay dividends and other distributions will depend on its operating results and will be subject to applicable laws and regulations which require that solvency and capital standards be maintained, and contractual restrictions contained in the instruments governing its debt. In the event of a bankruptcy, liquidation or reorganization of PMNI, holders of indebtedness and trade creditors will generally be entitled to payment of their claims from the assets of the subsidiary before any assets are made available for distribution to PNCC.

Future sales of Shares by directors and executive officers.

Subject to compliance with applicable securities laws, officers and directors and their affiliates may sell some or all of their Shares in the future. No prediction can be made as to the effect, if any, such future sales of Shares will have on the market price of the Shares prevailing from time to time. However, the future sale of a substantial number of Shares by our officers and directors and their affiliates, or the perception that such sales could occur, could adversely affect prevailing market prices for the Shares.

Dilution and future sales of Shares may occur.

Our articles permit the issuance of an unlimited number of Shares, and shareholders will have no pre-emptive rights in connection with such further issuances. Our directors have the discretion to determine the price and the terms of issue of further issuances of Shares.

Internal Controls

Disclosure controls and procedures within Postmedia have been designed to provide reasonable assurance that all relevant information is identified to its management, including the Chief Executive Officer (“CEO”) and the Executive Vice President and Chief Financial Officer (“CFO”), as appropriate, to allow required disclosures to be made in a timely fashion.

Internal controls over financial reporting have been designed by management, under the supervision of and with the participation of the CEO and CFO, to provide reasonable assurance regarding the reliability of Postmedia’s financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The CEO and CFO of Postmedia have evaluated the effectiveness of Postmedia’s internal controls over financial reporting during the year ended August 31, 2018. Based on this evaluation, the CEO and CFO concluded that disclosure controls and procedures and internal controls over financial reporting were effective as at August 31, 2018. The CEO and CFO have evaluated whether there were changes to Postmedia’s internal control over financial reporting during the three months ended August 31, 2018, that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting. There were no changes expected to have a material effect on internal control over financial reporting identified during their evaluation.

Share Capital

As at October 22, 2018 we had the following number of shares and options outstanding:

Class C voting shares.....	41,874
Class NC variable voting shares.....	93,675,325
Total shares outstanding.....	<u>93,717,199</u>
Total options and restricted share units outstanding ⁽¹⁾	<u>5,413,930</u>

⁽¹⁾ The total options and restricted share units outstanding are convertible into 5,413,930 Class NC variable voting shares. The total options and restricted share units outstanding include 1,842,572 options that are vested and 3,571,358 options that are unvested.